



Mission Statement

To become one of the
World's Recognized Leaders
in fashion apparel



High Fashion's New Weaving Plant in Xinchang, Zhejiang Province

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Chairman's Statement



A section of our new weaving plant

Results

Group turnover for the year ended 31 December 2003 was HK\$1.92 billion compared to HK\$2.17 billion for the 15 months ended 31 December 2002. Consolidated net profit attributable to shareholders was HK\$33.3 million, recovered from a net loss of HK\$23.9 million for the 15 months ended 31 December 2002.

The board of directors recommended a final dividend of 3 HK cents per share.

Private Label and Manufacturing Operations

Leveraging on our capability to satisfy our customers' needs for newness, quality, competitive pricing and quick response manufacturing, our private label business increased significantly. Sales to our key customers exceed average increase.

Branded Label

August Silk successfully launched a broader range of new products and new designs to our customer groups to combat a sluggish retail environment in the later part of 2003. August Silk products will be more competitive.

Retail Business

Theme's business was badly hit by SARS. Its franchisee business expansion program was abruptly suspended by half a year. During this difficult period we took initiative to control our inventory level and further improved our cost efficiency. Theme's operating loss was reduced, despite heavily decreased sales. SARS helped accelerating and deepening our reform on Theme, preparing it to sustain any tough shocks in the future.

Prospects

The picture for 2004 is one of improving consumer sentiment and spending in our major markets, but not without potential risks of unexpected shocks.



German warping machine

SARS has catalyzed heavier pressure on our industry for new products, added value and quicker response manufacturing time. Engineering from our vertically integrated production facilities, we own the essential tools to provide for big customers competitive one-stop shopping with total value-added packages custom tailored to their needs: from product design and development, through chain production to shipping, with appropriate depth, breadth and flexibility.

We never stop rejuvenating and building our company steadily. We consider 2004 is the right time to make additional strategic investments in technology, equipment and machinery to enable us ably respond to challenges and opportunities ahead as a result of abolition of apparel quota in 2005. We continue investing in our people. Our strategy is to take advantage of our existing service line to our well established customer base to quickly grow our non-silk business.

I want to thank our shareholders, customers, suppliers, our staff, management and my fellow directors for their continuous cooperation and support to us.

Lam Foo Wah

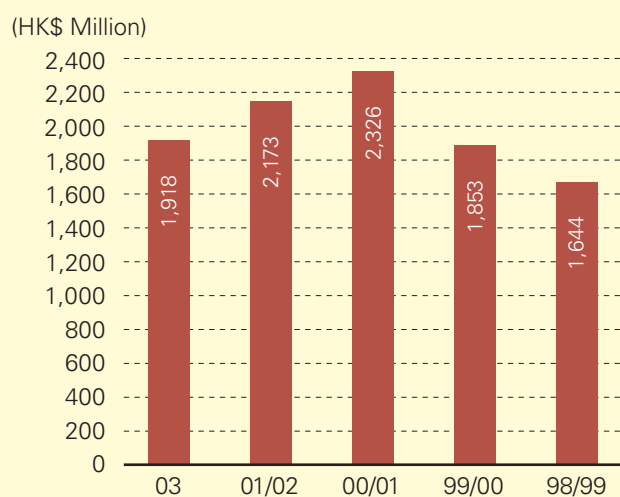
Chairman

Hong Kong, 20 April 2004

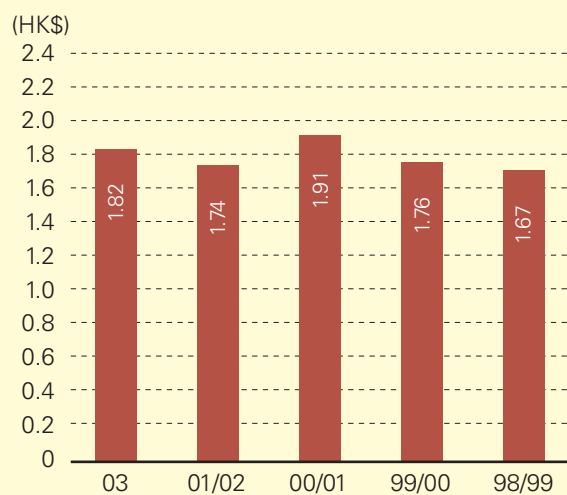


Financial Highlights

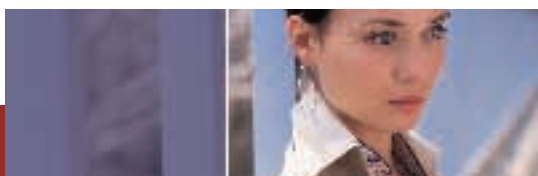
Turnover



Net Asset per Share



Management Discussion and Analysis



Results

Turnover for the year ended 31 December 2003 amounted to HK\$1.9 billion. Net profit attributable to shareholders for the year ended 31 December 2003 was HK\$33 million, compared with a reported loss of HK\$24 million for fifteen months ended 31 December 2002. Basic earnings per share was 10.2 HK cents. Net asset value per share was HK\$1.82.

Review of Operations

The segmental information is as follows:-

	12 months ended 31 December 2003	15 months ended 31 December 2002	12 months ended 31 December 2003	15 months ended 31 December 2002
	Turnover HK\$'000	HK\$'000	Contribution HK\$'000	HK\$'000
By principal activity:				
Manufacturing and trading	1,737,332	1,886,797	81,961	82,864
Retail	180,579	286,683	(21,813)	(63,382)
	<u>1,917,911</u>	<u>2,173,480</u>	<u>60,148</u>	<u>19,482</u>

The manufacturing and trading business showed improvement in both turnover and profit margin. On annualized basis, the turnover increased by 15% and profit contribution increased by 23%. The retail business of Theme was badly hit by the SARS outbreak. Loss on retail was substantially reduced from HK\$63 million to HK\$22 million.



Sophisticated advanced computerised European Jacquard Looms in our new weaving plant

Management Discussion and Analysis



Liquidity and Financial Resources

The Group's total outstanding bank borrowings were approximately HK\$367 million at the end of 2003 compared to HK\$365 million in 2002. Our gearing ratio of non-current liabilities to shareholders' funds was 5% at the balance sheet date. Current ratio was 1.3.

The Group's total cash and bank balances were HK\$183 million at the balance sheet date, compared to HK\$149 million in 2002. The Group had very strong working capital and unutilized banking facilities to meet its operating needs.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. The Group had no borrowings at fixed interest rates during the year.

The Group had no material contingent liabilities other than trade bills discounted in the ordinary course of business. Barring the pledge of trade receivables of HK\$64 million and Chinese Value Added Tax receivable of HK\$91 million (over 70% of which was subsequently received) of certain subsidiaries and on land and building with net book value of HK\$2.1 million, there were no other charges on the Group's assets.

The increase in bills and trade receivables at the balance sheet date was mainly due to the effect of increased turnover of peak months in the fourth quarter.

Human Resource

The total number of employees of the Group including jointly-controlled entities as at the balance sheet date was about 9,800. Other than competitive remuneration package offered to our employees, share options are available to reward employee performance. No share option was granted during the year.

Capital Expenditure

The Group invested HK\$39 million in building and machinery of our new weaving plant in Xinchang, PRC in 2003. Save this, there were no material capital expenditures.



Biographical Details of Directors and Senior Management



EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 55, is the chairman and the managing director of the Company and a co-founder of the Group. He is also the chairman of Theme International Holdings Limited. He oversees the Group's operations and is responsible for formulating the Group's overall policy and development. He has over 25 years' experience in the manufacturing and marketing of garments.

Mr. IP Weng Kun, aged 57, is the deputy managing director of the Company and is principally responsible for the strategic planning of the Group's core operation in China, product development, sourcing and marketing. He joined the Group in 1982.

Mr. HUI Yip Wing, David, aged 54, joined the Group in 1996. Mr. Hui is the vice chairman and CEO of Theme International Holdings Limited. He possesses vast operational experience at senior management level, with special emphasis on strategic planning, financial control, re-engineering and total quality management.

Mr. WONG Shing Loong, Raymond, aged 54, joined the Group in 1997. He is responsible for the financing, personnel and administration of the Group. Mr. Wong is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Prior to joining the Group, he had worked as an executive director in a Hong Kong listed company.

Ms. SO Siu Hang, Patricia, aged 45, joined the Group in 1990. She is responsible for the strategic direction and operational leadership of manufacturing the core unit. She received a bachelor's degree in commerce and finance and a master's degree in business administration from the University of Toronto and York University in Canada respectively. Prior to joining the Group, she had worked for an international bank.

NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, David, aged 59, joined the Group in 1992. He holds a bachelor's degree in architecture (Honours) from the University of California, Berkeley, the USA. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects. He is currently an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

Mr. CHAN Wah Tip, Michael, aged 51, joined the Group as a company secretary in 1992 and was appointed as a non-executive director in 1995. He has been practising as a solicitor in Hong Kong for over 20 years and is a partner of Wilkinson & Grist, the legal adviser of the Company.

SENIOR MANAGEMENT

Mr. Louis BREUNING, aged 48, joined the Group in 1994. He has over 25 years' experience in the knit, dress & sportswear industry and is the president of August Silk Inc.. He graduated from St. John University in New York, the USA with a bachelor's degree in business.

Mr. CHAN Chun Man, Benedict, aged 49, is the chairman of August Silk Inc. and High Fashion International (USA) Inc.. He is responsible for overseeing the Group's investments in USA. He graduated from the University of Hong Kong with a bachelor's degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the American Institute of Certified Public Accountants. Mr. Chan joined the Group in 1992.

Biographical Details of Directors and Senior Management

Mr. FEI Jian Ming, aged 53, is a director of High Fashion Garments Company Limited and the general manager of Zhejiang High Fashion Kaidi Silk Company Limited. He joined the Group in 1993. He graduated from Zhejiang University and holds a master degree in business administration and is the Senior Economist. He is a part-time professor of Zhejiang Institute of Science & Technology and the vice-president of Hangzhou Foreign Investment Association & Hangzhou Garments Association. He has over 20 years' management experience in clothing industry.

Ms. HU Ze Lin, aged 53, is a deputy general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. She is responsible for the production of that company. She joined the Group in 1993. She got the title of Economist in China. She has over 20 years' experience in textile industry with good experience in quality control in silk weaving production management.

Ms. LEUNG Suk Yin, Hilda, aged 47, has been with the Group since its inception. She holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 20 years' experience in the sales and merchandising of garments in Hong Kong and is a director of High Fashion Garments Company Limited.

Mr. LIN Ping, aged 43, is the general manager of Zhejiang Xinchang High Fashion Silk Science & Technology Co., Ltd and a deputy general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. He is responsible for the operation and administration of two companies. He is also a permanent member of China Fashion Color Association, a deputy general director of China Fashion Color Association Silk Committee, a permanent member of Zhejiang Province Silk Association. He joined the Group in 1993. He got the title of Economist in China. He has over 20 years' experience in textile industry with wide experience in product design and development, silk weaving production and management.

Mr. Fritz PENWELL, aged 64, is the president of High Fashion Garments, Inc., and holds a master's degree in industrial psychology. He has over 30 years' experience in importing, sales and marketing in the fashion industry both in the USA and overseas. He was a principal in several New York knitwear and California/ Japanese sportswear companies. He joined the Group in 1994.

Mr. RUAN Gen Yao, aged 43, is the general manager of Hangzhou Dalifu Silk Finishing Co., Ltd. He is responsible for the operation of that company. He joined the Group in 2001. He got the title of Politician Engineer in China and being Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 10 years' experience in silk finishing and dyeing with good experience in business management and silk finishing and dyeing.

Ms. WONG Man Lui, Endora, aged 48, joined the Group in 1991. She has over 20 years' experience in the sales and merchandising of garments. She is a director of High Fashion Knitwear Overseas Limited and is responsible for the development of knit product, sample operation, management of all the knit garments and for the Group's China and offshore operation.

Biographical Details of Directors and Senior Management

Mr. WONG Wai Kuen, Henry, aged 48, joined the Group in 2000. He is a director of High Fashion Garments Management Limited and is mainly responsible for banking, investor relations, human resources and administration of the Group. Prior to joining the Group, he had worked for an international bank for more than 20 years.

Mr. Nicholas E. G. WRIGHT, aged 49, joined the Group in 1993. He is the managing director of High Fashion (U.K.) Limited. He has over 19 years' experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 48, is the general manager of Suzhou High Fashion Garments Co., Ltd. He is responsible for the operation of that company. He joined the Group in 1999. He graduated from an institution and has over 10 years' experience in silk knitting garments management with good experience in business management and silk knitting production.

Mr. ZHU Jian Ping, aged 43, is the general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. He joined the Group in 1993. He got the title of Economist in China. He has over 20 years' experience in textile industry with wide experience in silk weaving production and management.

Mr. ZHANG Yue Quan, aged 34, is currently the deputy general manager of Zhejiang High Fashion Kaidi Silk Co., Ltd. He joined the Group in 1994. He graduated from the Faculty of Administration of Beijing Fashion College and further attained a MBA postgraduate certificate from Zhejiang Industrial University. He has been responsible for the management of operations and production of knit or woven wear and dyeing departments in the Group and is experienced in systematic fashion management.

Mr. WANG Xiao, aged 43, has completed tertiary education and is currently the general manager of Dongguan Daliwai Fashion Co., Ltd. He joined the High Fashion Group in 1996 and possesses over 15 years of experience in fashion management.

Mr. CHEN Jian Fang, aged 42, graduated from the Faculty of International Politics of the People's University of China in 1985. He previously worked with Beijing Municipal Committee and Zhejiang Provincial Committee. In 1994, he joined Hangzhou Westlake High Fashion Industry Co., Ltd. He is currently the deputy executive general manager of the clothing department of Zhejiang High Fashion Kaidi Silk Co., Ltd.

Ms. CHAN Wai Wei, Cynthia, aged 31, joined the Group in 2000. She is the company secretary of the Company. She has about 10 years' experience in accounting and auditing. Prior to joining the Group, she was a manager of an international accounting firm. She is a member of The Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.



Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 72.

An interim dividend of 1 HK cent per ordinary share was paid on 20 October 2003. The directors recommend the payment of a final dividend of 3 HK cents per ordinary share in respect of the year to shareholders on the register of members on 24 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 73. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its listed securities during the year. Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK\$165,015,000, of which HK\$9,822,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$293,354,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$286,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 37% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Lam Foo Wah

Ip Weng Kun

Hui Yip Wing, David

Wong Shing Loong, Raymond

So Siu Hang, Patricia

Jack Weinstock

(resigned on 15 October 2003)

Non-executive directors:

Woo King Wai, David

(independent director)

Chan Wah Tip, Michael

In accordance with the Company's bye-laws, Mr. Woo King Wai, David and Miss So Siu Hang, Patricia will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 11 of the annual report.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Chan Wah Tip, Michael, a director of the Company, was interested in contracts for the provision of legal advisory services to the Group. Further details of the transactions undertaken in connection therewith are included in note 38 to the financial statements. Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in ordinary shares of the Company:

Name of director	Notes	Beneficially owned	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
			Through spouse or minor children	Through controlled corporation		
Lam Foo Wah	1, 2	–	–	128,123,986	128,123,986	39.1%
Ip Weng Kun	3	–	–	5,627,848	5,627,848	1.7%
Hui Yip Wing, David		–	2,652,007	–	2,652,007	0.8%
Wong Shing Loong, Raymond		2,600,000	–	–	2,600,000	0.8%
So Siu Hang, Patricia		2,104,309	–	–	2,104,309	0.6%

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (cont'd)

(ii) Long positions in shares of associated corporation:

Name of director	Notes	Name of associated corporation	Relationship with the Company	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Lam Foo Wah	4	High Fashion Knitters Limited	Subsidiary	5,339,431	Through controlled corporations	35.6%

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 93,372,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have an interest in 34,751,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
3. Mr. Ip Weng Kun is deemed to have an interest in 5,627,848 ordinary shares which are beneficially owned by Major Rank Holdings Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Ip is regarded as a founder of the trust.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

Save as disclosed above, as at 31 December 2003, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hinton Company Limited	Beneficially owned	93,372,419	28.5%
High Fashion Charitable Foundation Limited	Beneficially owned	34,751,567	10.6%
Excel Investments Ltd.	Beneficially owned	27,150,000	8.3%

Save as disclosed above, as at 31 December 2003, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two non-executive directors of the Company.

Report of the Directors

AUDITORS

Ernst & Young retire and do not offer themselves for re-appointment. There have been no other changes of auditors in the past three years. A resolution for the appointment of Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lam Foo Wah
Chairman

Hong Kong
20 April 2004

Report of the Auditors



To the members

High Fashion International Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG
Certified Public Accountants

Hong Kong
20 April 2004

Consolidated Profit and Loss Account Year ended 31 December 2003

	<i>Notes</i>	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000 (Restated)
TURNOVER	5	1,917,911	2,173,480
Cost of sales		(1,381,902)	(1,545,306)
Gross profit		536,009	628,174
Other revenue and gains		24,726	36,434
Selling and distribution expenses		(238,308)	(301,760)
Administrative expenses		(262,279)	(343,366)
PROFIT FROM OPERATING ACTIVITIES	6	60,148	19,482
Finance costs	7	(26,370)	(37,171)
Loss on disposal of subsidiaries, associates and jointly-controlled entity		–	(6,672)
Write back of provision of investments in and amounts due from jointly-controlled entities		–	3,284
Share of profits and losses of:			
Jointly-controlled entities		1,486	1,100
Associates		–	(1,016)
PROFIT/(LOSS) BEFORE TAX		35,264	(20,993)
Tax	10	(1,998)	(2,192)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		33,266	(23,185)
Minority interests		–	(727)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	33,266	(23,912)
DIVIDENDS	12		
Interim		3,259	6,481
Proposed final		9,822	3,249
		13,081	9,730
EARNINGS/(LOSS) PER SHARE	13		
Basic		10.2 cents	(7.5 cents)
Diluted		10.1 cents	N/A

Consolidated Balance Sheet

31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	370,229	351,920
Investment properties	15	34,500	29,000
Trademarks	16	5,361	6,053
Interests in jointly-controlled entities	18	9,632	19,761
Interests in associates	19	(608)	(608)
Long term investments	20	13,793	13,793
Deferred tax assets	28	1,769	2,184
		434,676	422,103
CURRENT ASSETS			
Cash and bank balances	29	182,581	137,043
Pledged deposits	29	–	11,961
Certificate of deposits	21	10,000	10,000
Bills receivable		9,953	–
Trade receivables	22	261,837	223,083
Inventories	23	271,515	313,296
Deposits, prepayments and other receivables		190,303	195,243
Amounts due from jointly-controlled entities	18	–	2,780
		926,189	893,406
CURRENT LIABILITIES			
Bank loans and overdrafts	24	343,782	264,457
Finance lease and hire purchase contract payables	25	274	508
Bills payable		8,617	9,568
Trade payables and accrued purchases	26	219,749	218,157
Other payables and accruals		145,909	134,673
Tax payable		2,975	4,177
Dividend payable		–	3,249
Amounts due to jointly-controlled entities	18	5,590	–
		726,896	634,789
NET CURRENT ASSETS		199,293	258,617
TOTAL ASSETS LESS CURRENT LIABILITIES		633,969	680,720

Consolidated Balance Sheet

31 December 2003 (cont'd)

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Bank loans	24	23,400	100,120
Finance lease and hire purchase contract payables	25	267	589
Provision for long service payments	27	3,153	4,490
Deferred tax liabilities	28	2,012	2,006
		28,832	107,205
MINORITY INTERESTS			
		9,000	9,000
		596,137	564,515
CAPITAL AND RESERVES			
Issued capital	30	32,740	32,438
Reserves	32(a)	553,575	528,828
Proposed final dividend	12	9,822	3,249
		596,137	564,515

Lam Foo Wah
Director

Ip Weng Kun
Director

Consolidated Statement of Changes in Equity Year ended 31 December 2003

		Issued share capital	Share premium account	Exchange fluctuation reserve	Reserve funds (note 32(a))	Capital reserve/ reserve/ (goodwill) (note 32(a))	Capital redemption reserve	Investment property revaluation reserve	Retained profits	Proposed final dividend	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2001:											
As previously reported		31,192	275,941	(2,093)	11,607	6,061	4,703	213	242,976	24,955	595,555
Prior year adjustment:											
SSAP12 – restatement of deferred tax	28	–	–	–	–	–	–	–	4,113	–	4,113
As restated		31,192	275,941	(2,093)	11,607	6,061	4,703	213	247,089	24,955	599,668
Exchange realignment		–	–	4,927	–	–	–	–	–	–	4,927
Net gains and losses not recognised in the profit and loss account		–	–	4,927	–	–	–	–	–	–	4,927
Transfer from retained profits	32(a)	–	–	–	1,045	–	–	–	(1,045)	–	–
Scrip dividends	30	1,018	15,267	–	–	–	–	–	–	–	16,285
Exercise of share options	30	228	923	–	–	–	–	–	–	–	1,151
Release upon disposal of subsidiaries		–	–	(2,535)	(4,397)	–	–	–	4,397	–	(2,535)
Release upon disposal of associates and jointly-controlled entity		–	–	367	(2,315)	–	–	–	2,315	–	367
Net loss for the period		–	–	–	–	–	–	–	(23,912)	–	(23,912)
Final 2001 dividend declared		–	–	–	–	–	–	–	–	(24,955)	(24,955)
First interim dividend for 2002	12	–	–	–	–	–	–	–	(3,232)	–	(3,232)
Second interim dividend for 2002	12	–	–	–	–	–	–	–	(3,249)	–	(3,249)
Proposed final 2002 dividend	12	–	–	–	–	–	–	–	(3,249)	3,249	–
At 31 December 2002		32,438	292,131	666	5,940	6,061	4,703	213	219,114	3,249	564,515

Consolidated Statement of Changes in Equity Year ended 31 December 2003 (cont'd)

Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000 <i>(note 32(a))</i>	Capital reserve/ (goodwill) HK\$'000 <i>(note 32(a))</i>	Capital redemption reserve HK\$'000	Investment	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000	
							property revaluation reserve HK\$'000				
At 1 January 2003:											
	As previously reported	32,438	292,131	666	5,940	6,061	4,703	213	215,506	3,249	560,907
Prior year adjustment:											
28	SSAP12 – restatement of deferred tax	–	–	–	–	–	–	–	3,608	–	3,608
	As restated	32,438	292,131	666	5,940	6,061	4,703	213	219,114	3,249	564,515
15	Revaluation surplus	–	–	–	–	–	–	3,146	–	–	3,146
	Exchange realignment	–	–	193	–	–	–	–	–	–	193
Net gains and losses not recognised in the profit and loss account											
		–	–	193	–	–	–	3,146	–	–	3,339
32(a)	Transfer from retained profits	–	–	–	326	–	–	–	(326)	–	–
30	Exercise of share options	302	1,223	–	–	–	–	–	–	–	1,525
	Final 2002 dividend declared	–	–	–	–	–	–	–	–	(3,249)	(3,249)
	Net profit for the year	–	–	–	–	–	–	–	33,266	–	33,266
12	Interim dividend for 2003	–	–	–	–	–	–	–	(3,259)	–	(3,259)
12	Proposed final 2003 dividend	–	–	–	–	–	–	–	(9,822)	9,822	–
At 31 December 2003											
		32,740	293,354*	859*	6,266*	6,061*	4,703*	3,359*	238,973*	9,822	596,137
Reserves retained by:											
	Company and subsidiaries	32,740	293,354	1,686	6,266	6,061	4,703	3,359	266,750	9,822	624,741
	Jointly-controlled entities	–	–	(827)	–	–	–	–	(27,777)	–	(28,604)
31 December 2003											
		32,740	293,354	859	6,266	6,061	4,703	3,359	238,973	9,822	596,137
Company and subsidiaries											
		32,438	292,131	1,493	5,940	6,061	4,703	213	248,342	3,249	594,570
Jointly-controlled entities											
		–	–	(827)	–	–	–	–	(29,228)	–	(30,055)
31 December 2002											
		32,438	292,131	666	5,940	6,061	4,703	213	219,114	3,249	564,515

* These reserve accounts comprise the consolidated reserves of HK\$553,575,000 (2002 (restated): HK\$528,828,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2003

		Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		35,264	(20,993)
Adjustments for:			
Finance costs	7	26,370	37,171
Loss on disposal of subsidiaries, associates and jointly-controlled entity		–	6,672
Write back of provision of investments in and amounts due from jointly-controlled entities		–	(3,284)
Share of profits and losses of jointly-controlled entities and associates		(1,486)	(84)
Interest income	6	(1,005)	(5,715)
Dividend income from long term investments	6	–	(2,047)
Loss/(gain) on disposal of fixed assets	6	3,875	(370)
Depreciation	6	40,384	47,572
Amortisation of trademarks	6	692	864
Operating profit before working capital changes		104,094	59,786
Decrease in certificate of deposits		–	13,452
Decrease/(increase) in bills receivable		(9,953)	5,560
Decrease/(increase) in trade receivables		(38,754)	33,112
Decrease/(increase) in inventories		41,781	(11,979)
Decrease/(increase) in deposits, prepayments and other receivables		4,940	(42,203)
Decrease/(increase) in amounts due from jointly-controlled entities		2,780	(533)
Decrease in bills payable		(951)	(26,402)
Increase in trade payables and accrued purchases		1,592	28,203
Increase/(decrease) in other payables and accruals		11,236	(17,100)
Decrease in provision for long service payments		(1,337)	(6,931)
Increase in amounts due to jointly-controlled entities		5,590	–
Cash generated from operations		121,018	34,965
Hong Kong profits tax paid		(454)	(3,167)
Overseas taxes paid		(2,290)	(1,172)
Net cash inflow from operating activities		118,274	30,626

Consolidated Cash Flow Statement Year ended 31 December 2003 (cont'd)

		Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
	<i>Notes</i>		
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,005	5,715
Dividends received from long term investments		–	2,047
Purchases of fixed assets		(57,657)	(157,490)
Proceeds from disposal of fixed assets		4,864	8,007
Decrease in amounts due from jointly-controlled entities		40	4,360
Increase in amounts due to associates		–	115
Capital contribution to a jointly-controlled entity		(80)	(5,974)
Disposal of subsidiaries	33(a)	–	(1,839)
Decrease/(increase) in pledged deposits		11,961	(11,961)
Proceeds from disposal of associates		–	3,206
Acquisition of minority interests in subsidiaries		–	(271)
Net cash outflow from investing activities		(39,867)	(154,085)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		386,815	458,710
Decrease in trust receipt loans		(5,164)	(112,659)
Repayment of bank loans		(380,989)	(309,675)
Capital element of finance lease and hire purchase rental payments		(538)	(661)
Interest paid	7	(15,766)	(24,111)
Interest element on finance lease and hire purchase rental payments	7	(73)	(81)
Factoring expenses	7	(4,168)	(4,913)
Bank charges	7	(6,363)	(8,066)
Exercise of share options	30	1,525	1,151
Dividends paid		(9,757)	(11,902)
Net cash outflow from financing activities		(34,478)	(12,207)

Consolidated Cash Flow Statement Year ended 31 December 2003 (cont'd)

		Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		43,929	(135,666)
Cash and cash equivalents at beginning of year/period		136,040	271,520
Effect of foreign exchange rate changes, net		(334)	186
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		179,635	136,040
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	182,581	137,043
Bank overdrafts	24	(2,946)	(1,003)
		179,635	136,040

Balance Sheet

31 December 2003

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	492,994	481,983
CURRENT ASSETS			
Bank balances	29	59	61
Prepayments		160	–
Dividend receivable		20,000	20,000
		20,219	20,061
CURRENT LIABILITIES			
Other payables and accruals		832	1,011
Tax payable		48	48
Dividend payable		–	3,249
		880	4,308
NET CURRENT ASSETS			
		19,339	15,753
		512,333	497,736
CAPITAL AND RESERVES			
Issued capital	30	32,740	32,438
Reserves	32(b)	469,771	462,049
Proposed final dividend	12	9,822	3,249
		512,333	497,736

Lam Foo Wah
Director

Ip Weng Kun
Director

1. CORPORATE INFORMATION

During the year, the principal activities of the Group were the manufacture, retailing and trading of garments.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The principal impact of the revision of this SSAP on these financial statements is described below.

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for the elimination of unrealised profits arising from intragroup transactions.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 28 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year/period.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 28 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certificate of deposits, as further explained below.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company/Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company/Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company/Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company/Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combination" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business combination" in 2001, negative goodwill arising on acquisitions was credited to the consolidated capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 fixed assets when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of 10 years.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses.

Certificate of deposits

Certificate of deposits are held for an undetermined period and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the year in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Textile quotas

Permanent textile quotas allocated by government authorities are not capitalised and, therefore, are not reflected as assets in the balance sheet. Temporary textile quota expenses are charged to the profit and loss account when incurred.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the 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.

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

Employee benefits *(cont'd)*

Retirement benefits scheme

Certain subsidiaries operate different defined contribution retirement benefits schemes for those employees who are eligible to participate in the scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully with the employees when contributed into the schemes, except for the Group's voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully.

Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of 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 are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Related parties

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on a straight-line basis over the lease terms; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of 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.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The business segments are divided into (i) the manufacture and trading of garments; and (ii) the retailing of garments.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements 31 December 2003

4. SEGMENT INFORMATION (cont'd)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Manufacture and trading of garments		Retailing of garments		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment revenue:						
Sales to external customers	1,737,332	1,886,797	180,579	286,683	1,917,911	2,173,480
Segment results	81,010	75,271	(21,867)	(63,551)	59,143	11,720
Interest income and dividend income					1,005	7,762
Finance costs					(26,370)	(37,171)
Loss on disposal of subsidiaries, associates and jointly-controlled entity	-	(6,672)	-	-	-	(6,672)
Write back of provision of investments in and amounts due from jointly-controlled entities	-	3,284	-	-	-	3,284
Share of profits and losses of:						
Jointly-controlled entities	1,486	1,100	-	-	1,486	1,100
Associates	-	(1,016)	-	-	-	(1,016)
Profit/(loss) before tax					35,264	(20,993)
Tax					(1,998)	(2,192)
Profit/(loss) before minority interests					33,266	(23,185)
Minority interests					-	(727)
Net profit/(loss) from ordinary activities attributable to shareholders					33,266	(23,912)

Notes to Financial Statements 31 December 2003

4. SEGMENT INFORMATION *(cont'd)*

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

Group

	Manufacture and trading of garments		Retailing of garments		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 <i>(Restated)</i>
Segment assets	1,261,363	1,181,267	85,763	111,902	1,347,126	1,293,169
Interests in jointly-controlled entities	9,632	19,761	–	–	9,632	19,761
Interests in associates	–	–	(608)	(608)	(608)	(608)
Unallocated assets					1,769	2,184
Bank overdrafts included in segment assets	1,089	–	1,857	1,003	2,946	1,003
Total assets					1,360,865	1,315,509
Segment liabilities	346,243	324,405	37,316	46,829	383,559	371,234
Unallocated liabilities					369,223	369,757
Bank overdrafts included in segment assets	1,089	–	1,857	1,003	2,946	1,003
Total liabilities					755,728	741,994
Other segment information:						
Depreciation and amortisation	34,869	37,364	6,207	11,072	41,076	48,436
Capital expenditure	65,400	149,436	3,877	9,091	69,277	158,527

Notes to Financial Statements 31 December 2003

4. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	United States of America		Europe		Greater China		Others		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:										
Sales to external customers	1,444,907	1,591,636	186,426	173,830	274,183	386,511	12,395	21,503	1,917,911	2,173,480
Other segment information:										
Segment assets	137,516	137,316	24,441	15,605	1,181,902	1,135,332	3,267	4,916	1,347,126	1,293,169
Interests in jointly-controlled entities	-	-	-	-	9,632	19,761	-	-	9,632	19,761
Interests in associates	-	-	-	-	(608)	(608)	-	-	(608)	(608)
Unallocated assets									1,769	2,184
Bank overdrafts included in segment assets	-	-	-	-	2,946	1,003	-	-	2,946	1,003
									1,360,865	1,315,509
Capital expenditure	1,717	404	249	4,751	67,167	152,648	144	724	69,277	158,527

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

Notes to Financial Statements 31 December 2003

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

		Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
	<i>Notes</i>		
Cost of inventories sold		1,381,902	1,545,306
Depreciation	14	40,384	47,572
Amortisation of trademarks*	16	692	864
Auditors' remuneration		2,761	2,026
Minimum lease payments under operating lease rentals of equipment		119	121
Operating lease rentals of land and buildings:			
Minimum lease payments		42,264	77,354
Contingent rents		18,784	21,233
		61,048	98,587
Staff costs (including directors' remuneration – note 8):			
Wages, salaries and bonuses		284,799	363,650
Retirement benefits contributions		9,790	13,097
Less: Forfeited contributions		(203)	(875)
Net pension scheme contributions [®]		9,587	12,222
		294,386	375,872
Foreign exchange losses/(gains), net		(3,089)	2,105
Temporary textile quota expenses		12,663	11,794
Loss/(gain) on disposal of fixed assets		3,875	(370)
Gross rental income from investment properties		(3,158)	(3,488)
Less: Outgoings		1,112	1,345
Net rental income		(2,046)	(2,143)
Sub-letting rental income (included in selling and distribution expenses)		(5,003)	(5,672)
Interest income		(1,005)	(5,715)
Dividend income from long term investments		–	(2,047)
Gain on disposal of bonds		–	(2,522)

* The amortisation of trademarks is included in "Selling and distribution expenses" on the face of the consolidated profit and loss account.

[®] At 31 December 2003, the Group had forfeited contributions of HK\$64,000 (2002: HK\$21,000) available to reduce its contributions to the retirement benefits scheme in future years.

Notes to Financial Statements 31 December 2003

7. FINANCE COSTS

	Group	
	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	15,766	24,111
Interest on finance leases and hire purchase contracts	73	81
Factoring expenses	4,168	4,913
Bank charges	6,363	8,066
	26,370	37,171

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Fees	623	839
Salaries, allowances and benefits in kind	13,183	16,962
Performance related bonuses	–	3,100
Retirement benefits contributions	48	574
	13,854	21,475

Fees include HK\$160,000 (Period ended 31 December 2002: HK\$200,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (Period ended 31 December 2002: Nil).

Notes to Financial Statements 31 December 2003

8. DIRECTORS' REMUNERATION *(cont'd)*

The remuneration of the directors fell within the following bands:

	Number of directors	
	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
Nil to HK\$1,000,000	3	4
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$8,500,001 to HK\$9,000,000	–	1
	8	9

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year and in the prior period are all directors, details of whose remuneration are set out in note 8 above.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (Period ended 31 December 2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year/period	220	630
Overprovision in prior years	–	(71)
Current – Elsewhere		
Charge for the year/period	1,107	853
Underprovision in prior years	215	254
Deferred (<i>note 28</i>)	421	505
	1,963	2,171
Share of tax attributable to jointly-controlled entities	35	21
Total tax charge for the year/period	1,998	2,192

In accordance with the relevant tax rules and regulations in the People's Republic of China ("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%.

Notes to Financial Statements 31 December 2003

10. TAX (cont'd)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2003

	HK\$'000	%
Profit before tax	35,264	
Tax at the statutory tax rate	6,171	17.5
Different tax rates for specific countries and provinces	343	
Income not subject to tax	(15,825)	
Expenses not deductible for tax	5,793	
Tax losses not recognised as deferred tax assets	12,763	
Tax losses utilised from previous periods	(7,462)	
Underprovision in the prior period	215	
Tax charge for the year	1,998	

Notes to Financial Statements 31 December 2003

10. TAX (cont'd)

Group – 2002

	HK\$'000	%
Loss before tax	(20,993)	
Tax at the statutory tax rate	(3,359)	16.0
Different tax rates for specific countries and provinces	123	
Income not subject to tax	(27,564)	
Expenses not deductible for tax	10,920	
Tax losses not recognised as deferred tax assets	23,059	
Tax losses utilised from previous periods	(1,170)	
Underprovision in the prior year	183	
Tax charge for the period	2,192	

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$19,580,000 (Period ended 31 December 2002: HK\$18,351,000).

12. DIVIDENDS

	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
First interim – 1 (Period ended 31 December 2002: 1) HK cent per ordinary share	3,259	3,232
Second interim – Nil (Period ended 31 December 2002: 1) HK cent per ordinary share	–	3,249
Proposed final – 3 (Period ended 31 December 2002: 1) HK cents per ordinary share	9,822	3,249
	13,081	9,730

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$33,266,000 (Period ended 31 December 2002: restated net loss of HK\$23,912,000), and the weighted average of 325,520,564 (Period ended 31 December 2002: 318,307,126) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$33,266,000. The weighted average number of ordinary shares used in the calculation is 325,520,564 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 5,019,197 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

A diluted loss per share amount for the period ended 31 December 2002 had not been disclosed as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

Notes to Financial Statements 31 December 2003

14. FIXED ASSETS

Group

	Land and buildings (Hong Kong) HK\$'000	Land and buildings (Elsewhere) HK\$'000	Construction in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:								
At beginning of year	36,620	185,863	18,819	31,753	201,447	68,206	20,455	563,163
Additions	–	1,561	35,594	5,594	23,214	2,050	1,264	69,277
Transfers	–	31,451	(43,182)	–	10,200	942	589	–
Transfer to investment properties (<i>note 15</i>)	(3,219)	–	–	–	–	–	–	(3,219)
Disposals	–	(730)	(108)	(7,313)	(15,992)	(882)	(538)	(25,563)
Exchange realignment	–	–	–	212	218	105	247	782
At 31 December 2003	33,401	218,145	11,123	30,246	219,087	70,421	22,017	604,440
Accumulated depreciation:								
At beginning of year	5,574	24,783	–	15,864	100,470	51,422	13,130	211,243
Provided during the year	677	6,760	–	6,436	19,759	4,300	2,452	40,384
Transfer to investment properties (<i>note 15</i>)	(865)	–	–	–	–	–	–	(865)
Disposals	–	(198)	–	(5,933)	(9,754)	(738)	(201)	(16,824)
Exchange realignment	–	–	–	30	155	13	75	273
At 31 December 2003	5,386	31,345	–	16,397	110,630	54,997	15,456	234,211
Net book value:								
At 31 December 2003	28,015	186,800	11,123	13,849	108,457	15,424	6,561	370,229
At 31 December 2002	31,046	161,080	18,819	15,889	100,977	16,784	7,325	351,920

The net book value of the Group's fixed assets held under finance leases and hire purchase contracts included in the total amount of motor vehicles at 31 December 2003 amounted to HK\$1,041,000 (2002: HK\$1,652,000).

Notes to Financial Statements 31 December 2003

14. FIXED ASSETS (cont'd)

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Long term leases	–	2,879	2,879
Medium term leases	33,401	215,266	248,667
	<u>33,401</u>	<u>218,145</u>	<u>251,546</u>

15. INVESTMENT PROPERTIES

	Group	
	2003 HK\$'000	2002 HK\$'000
At beginning of year/period	29,000	29,000
Transfer from fixed assets (note 14)	2,354	–
Revaluation surplus	3,146	–
At end of year/period	<u>34,500</u>	<u>29,000</u>

The Group's investment properties are situated in Hong Kong and are held under medium term leases. The investment properties were revalued on 31 December 2003 by Centaline Surveyors Limited, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

Notes to Financial Statements 31 December 2003

16. TRADEMARKS

Group

	HK\$'000
Cost:	
At beginning of year and 31 December 2003	6,917
Accumulated amortisation:	
At beginning of year	864
Provided during the year	692
At 31 December 2003	1,556
Net book value:	
At 31 December 2003	5,361
At 31 December 2002	6,053

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	126,671	126,671
Due from subsidiaries	390,071	369,133
Due to subsidiaries	(23,748)	(13,821)
	492,994	481,983

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

Notes to Financial Statements 31 December 2003

17. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Access Agents Limited	British Virgin Islands/PRC	US\$1	100	100	Garment retailing
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	100	Marketing and garment trading
Bramead International Inc.	British Virgin Islands/USA	US\$1	100	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting deferred	100	100	Investment holding
Dongguan Dalwai Fashion Co., Ltd.*	PRC	HK\$28,000,000	100	100	Garment manufacturing
Dong Guan Sanyue Fashions Limited	PRC	HK\$10,000,000	69	69	Garment manufacturing
Guangdong Theme-Huayu Fashion Company Limited	PRC	RMB5,000,000	36.75 †	36.75 †	Garment retailing
Hangzhou High Fashion May Garments Industry Co., Ltd.*	PRC	RMB4,966,400	100	100	Garment manufacturing
Hangzhou OCT & High Fashion Textile Co., Ltd.*	PRC	RMB3,000,000	100	100	Garment manufacturing
Hangzhou Westlake High Fashion Industry Co., Ltd.*	PRC	RMB33,192,800	100	100	Garment manufacturing
High Fashion Garments, Inc.	USA	US\$5,000	100	100	Marketing and garment trading

Notes to Financial Statements 31 December 2003

17. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
High Fashion Apparel Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	100	Investment holding
High Fashion (FG) Limited	British Virgin Islands/ PRC	US\$1	100	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 (BVI) Limited	British Virgin Islands/PRC	US\$1	100	100	Garment manufacturing and trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	MOP100,000	100	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	100	Investment holding
High Fashion Knitwear Limited	British Virgin Islands/PRC	US\$1	100	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK\$2 Ordinary HK\$10,000 Non-voting deferred	100	100	Garment trading
High Fashion Silk (Taiwan) Limited	Taiwan	NT\$5,000,000	100	100	Garment retailing

Notes to Financial Statements 31 December 2003

17. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
High Fashion Trading Company Limited	Hong Kong	HK\$2	100	100	Garment trading
High Fashion (UK) Limited	United Kingdom	GBP20,000	70.5	70.5	Garment trading
Navigation Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment holding
Quality Control Agency Inc.	British Virgin Islands/ PRC	US\$1,000	75	75	Garment manufacturing
Shanghai Theme Fashion Company	PRC	RMB3,000,000	36.75 [†]	36.75 [†]	Garment retailing
Stage II Limited	Hong Kong	HK\$800,000	75	75	Garment retailing
Super Base (China) Limited	Hong Kong	HK\$2	75	75	Property holding
Taiwan Vision Company Limited	Taiwan	NT\$80,000,000	75	75	Garment retailing
Theme International Holdings Limited	Bermuda/ Hong Kong	HK\$25,083,294	75	75	Investment holding
Theme International Limited	Hong Kong	HK\$2 Ordinary HK\$1,000,000 Non-voting deferred	75	75	Garment trading
U-campus Holdings Limited	Hong Kong	HK\$2	100	100	Garment retailing

Notes to Financial Statements 31 December 2003

17. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Zhejiang High Fashion Kaidi Silk Co., Ltd.*	PRC	RMB51,828,660	100	100	Dyeing, printing and sandwashing of fabrics
Zhejiang Xinchang High Fashion Silk Co., Ltd.*	PRC	RMB50,219,630	100	100	Silk weaving
Zhejiang Xinchang High Fashion Silk Science and Technology Co., Ltd.*	PRC	US\$6,500,000	100	100	Silk weaving

[†] *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.*

* *These companies are registered as a wholly-foreign owned enterprises under the PRC law.*

All subsidiaries are indirectly held by the Company with the exception of High Fashion Apparel Limited.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements 31 December 2003

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	9,322	7,791
Due from jointly-controlled entities	310	11,970
	9,632	19,761
	9,632	19,761

The balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	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.	Corporate	PRC	51	50	51	Garment manufacturing
Suzhou High Fashion Garment Co., Ltd.	Corporate	PRC	51	60	51	Garment manufacturing
Uranus Garment Factory Limited	Corporate	Macau	40	50	40	Garment manufacturing

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

19. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
Due to an associate	(608)	(608)
	(608)	(608)
	(608)	(608)

The balance with an associate is unsecured, interest-free and has no fixed terms of repayment.

Notes to Financial Statements 31 December 2003

19. INTERESTS IN ASSOCIATES (cont'd)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
Sherman-Theme (China) Limited	Corporate	Hong Kong	37.5	37.5	Investment holding
Shenyang Sherman – Theme Fashion Limited*	Corporate	PRC	22.5	22.5	Dormant

* Not audited by Ernst and Young Hong Kong or other Ernst & Young International member firms.

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

20. LONG TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity investments, at cost	14,118	14,118
Provision for impairment	(325)	(325)
	13,793	13,793

Particulars of certain of the Group's long term investments are as follows:

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

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

Notes to Financial Statements 31 December 2003

21. CERTIFICATE OF DEPOSITS

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted certificate of deposits, at market value	10,000	10,000

22. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 90 days	252,006	219,778
91 to 180 days	7,790	2,432
181 to 360 days	1,922	582
Over 360 days	119	291
	<u>261,837</u>	<u>223,083</u>

The Group allows an average credit period of 30 to 90 days to its trade debtors. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

23. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	59,098	110,933
Work in progress	109,589	63,688
Finished goods	102,828	138,675
	<u>271,515</u>	<u>313,296</u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$73,271,000 (2002: HK\$64,339,000) as at the balance sheet date.

Notes to Financial Statements 31 December 2003

24. BANK LOANS AND OVERDRAFTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, unsecured	2,946	1,003
Trust receipt loans, unsecured	19,876	25,040
Bank loans, unsecured	301,626	281,727
Bank loans, secured	42,734	56,807
	367,182	364,577
Portion classified as current liabilities	(343,782)	(264,457)
Long term portion	23,400	100,120
Amounts repayable:		
Within one year or on demand	343,782	264,457
In the second year	23,400	76,720
In the third to fifth years, inclusive	–	23,400
	367,182	364,577

At 31 December 2003, the secured bank loans were secured by mortgages over certain of the Group's land and buildings and other receivables which had an aggregate net book value of approximately HK\$2,105,000 (2002: HK\$2,210,000) and HK\$90,784,000 (2002: HK\$85,477,000), respectively.

Notes to Financial Statements 31 December 2003

25. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its motor vehicles. These leases are classified as finance leases and have remaining lease terms of one to three years.

At 31 December 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable:				
Within one year	310	582	274	508
In the second year	184	358	168	321
In the third to fifth years, inclusive	101	286	99	268
Total minimum finance lease payments	595	1,226	541	1,097
Future finance charges	(54)	(129)		
Total net finance lease payables	541	1,097		
Portion classified as current liabilities	(274)	(508)		
Long term portion	267	589		

26. TRADE PAYABLES AND ACCRUED PURCHASES

An aged analysis of the trade payables and accrued purchases as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade payables:		
Within 90 days	108,960	126,962
91 to 180 days	7,406	11,998
181 to 360 days	13,280	9,311
Over 360 days	13,477	16,414
Accrued purchases	143,123	164,685
	76,626	53,472
	219,749	218,157

Notes to Financial Statements 31 December 2003

27. PROVISION FOR LONG SERVICE PAYMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
At beginning of year/period	4,490	11,421
Amounts utilised during the year/period	(1,337)	(4,031)
Reversal of unutilised amounts	–	(2,900)
At end of year/period	3,153	4,490

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the 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.

28. DEFERRED TAX

The movements in deferred tax liabilities and assets are as follows:

Deferred tax liabilities

Group

	2003 HK\$'000	2002 HK\$'000
At beginning of year/period		
As previously reported	3,430	3,430
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	(1,424)	(1,294)
As restated	2,006	2,136
Deferred tax charged/(credited) to the profit and loss account during the year/period (<i>note 10</i>)	6	(130)
Gross deferred tax liabilities at end of year/period	2,012	2,006

The deferred tax liabilities were recognised in respect of accelerated tax depreciation.

Notes to Financial Statements 31 December 2003

28. DEFERRED TAX (cont'd)

Deferred tax assets

Group

	2003 HK\$'000	2002 HK\$'000
At beginning of year/period		
As previously reported	–	–
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	2,184	2,819
As restated	2,184	2,819
Deferred tax charged to the profit and loss account during the year/period (note 10)	(415)	(635)
Gross deferred tax assets at end of year/period	1,769	2,184

The deferred tax assets were recognised in respect of the elimination of unrealised profits arising from intragroup transactions.

The Group has tax losses arising in Hong Kong of HK\$139,311,000 (2002: HK\$114,161,000) that are available indefinitely and tax losses of HK\$55,932,000 (2002: HK\$48,692,000) arising in overseas that are available at maximum of twenty years. These tax losses can be utilised 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.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK\$1,769,000 and HK\$2,184,000, respectively, and a decrease in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by HK\$1,418,000 and HK\$1,424,000, respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 December 2003 has been decreased by HK\$421,000, the consolidated net loss attributable to shareholders for period ended 31 December 2002 has been increased by HK\$505,000 and the consolidated retained profits at 1 January 2003 and 1 October 2001 have been increased by HK\$3,608,000 and HK\$4,113,000, respectively, as detailed in the consolidated statement of changes in equity.

Notes to Financial Statements 31 December 2003

29. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances		182,581	137,043	59	61
Time deposits		–	11,961	–	–
		182,581	149,004	59	61
Less: Pledged time deposits	(a)	–	(11,961)	–	–
		182,581	137,043	59	61

Note:

(a) Prior period's pledged time deposits was used to secure the Group's bank loans as at 31 December 2003.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$51,248,000 (2002: HK\$44,837,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

30. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
327,401,550 (2002: 324,381,550) ordinary shares of HK\$0.10 each	32,740	32,438

During the year, the subscription rights attaching to 3,020,000 share options were exercised at the subscription price of HK\$0.505 per share (note 31), resulting in the issue of 3,020,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$1,525,000.

Notes to Financial Statements 31 December 2003

30. SHARE CAPITAL (cont'd)

A summary of the movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 October 2001	311,923,630	31,192	275,941	307,133
Share options exercised	2,280,000	228	923	1,151
Script dividends	10,177,920	1,018	15,267	16,285
At 31 December 2002 and 1 January 2003	324,381,550	32,438	292,131	324,569
Share options exercised	3,020,000	302	1,223	1,525
At 31 December 2003	327,401,550	32,740	293,354	326,094

31. SHARE OPTION SCHEMES

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.

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 may 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 may not be 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.

31. SHARE OPTION SCHEMES (cont'd)

The 3,020,000 share options exercised during the year resulted in the issue of 3,020,000 ordinary shares of the Company and new share capital of HK\$302,000 and share premium of HK\$1,223,000 (before issuing expenses), as detailed in note 30 to the financial statements.

At the balance sheet date, the Company had 9,750,000 share options outstanding, which represented approximately 3% 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 9,750,000 additional ordinary shares of the Company and additional share capital of HK\$975,000 and share premium of approximately HK\$3,949,000 (before issue expenses).

The following share options were outstanding during the year:

Name or category of participant	Number of share options				Date of grant	Exercise price HK\$	Price of Company's shares at exercise date* HK\$
	At 1 January 2003	Exercised during the year	Cancelled during the year	At 31 December 2003			
Directors							
Lam Foo Wah	3,800,000	–	–	3,800,000	6 May 1999	0.505	–
Ip Weng Kun	1,500,000	–	–	1,500,000	6 May 1999	0.505	–
So Siu Hang, Patricia	1,200,000	(480,000)	–	720,000	6 May 1999	0.505	0.79
Wong Shing Loong, Raymond	1,000,000	–	–	1,000,000	6 May 1999	0.505	–
Jack Weinstock [®]	300,000	(150,000)	(150,000)	–	6 May 1999	0.505	0.88
Other employees	5,120,000	(2,390,000)	–	2,730,000	6 May 1999	0.505	1.09
	<u>12,920,000</u>	<u>(3,020,000)</u>	<u>(150,000)</u>	<u>9,750,000</u>			

Note: 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, a further 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.

* The price of the Company's shares disclosed as at the date of exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

[®] Jack Weinstock resigned as a director on 15 October 2003.

Notes to Financial Statements 31 December 2003

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on pages 23 to 24 of the financial statements.

The amounts of goodwill eliminated against the capital reserve and negative goodwill credited to the capital reserve arising from the acquisition of subsidiaries were HK\$2,527,000 and HK\$8,588,000, respectively, as at 31 December 2002 and 2003.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in the Mainland China and Macau have been transferred to reserve funds which are restricted as to use.

(b) Company

		Share premium account	Contributed surplus	Capital reserve	Capital redemption reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 September 2001		275,941	101,171	16,521	4,703	38,902	437,238
Scrip dividends	30	15,267	–	–	–	–	15,267
Exercise of share options	30	923	–	–	–	–	923
Profit for the period		–	–	–	–	18,351	18,351
First interim dividend for 2002	12	–	–	–	–	(3,232)	(3,232)
Second interim dividend for 2002	12	–	–	–	–	(3,249)	(3,249)
Proposed final dividend for 2002	12	–	–	–	–	(3,249)	(3,249)
At 31 December 2002		292,131	101,171	16,521	4,703	47,523	462,049
Exercise of share options	30	1,223	–	–	–	–	1,223
Profit for the year		–	–	–	–	19,580	19,580
Interim dividend for 2003	12	–	–	–	–	(3,259)	(3,259)
Proposed final dividend for 2003	12	–	–	–	–	(9,822)	(9,822)
At 31 December 2003		293,354	101,171	16,521	4,703	54,022	469,771

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.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of subsidiaries

	Period from 1 October 2001 to 31 December 2002 HK\$'000
Net assets disposed of:	
Fixed assets	14,829
Cash and bank balances	1,839
Trade receivables	4,227
Inventories	1,161
Deposits, prepayments and other receivables	5,106
Trade payable and accrued purchases	(8,053)
Other payables and accruals	(603)
Tax payable	(689)
Minority interests	(10,889)
Net amounts due from the Group	10,360
Exchange fluctuation reserve	2,535
	<u>19,823</u>
Loss on disposal of subsidiaries	<u>(5,176)</u>
	<u>14,647</u>
Satisfied by:	
Other receivables	4,287
Net amounts due from the Group	10,360
	<u>14,647</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries was as follows:

Cash and bank balances disposed of	<u>(1,839)</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(1,839)</u>

The results of the subsidiaries disposed of during the prior period had no significant impact on the Group's consolidated turnover or loss after tax for that period.

(b) Major non-cash transactions

During the year, the Group purchased certain fixed assets of approximately HK\$11,620,000 from the Group's jointly-controlled entities. The amount was settled by the amounts due from the jointly-controlled entities to the Group. In the prior period, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,037,000.

Notes to Financial Statements 31 December 2003

34. 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.

	Group	
	2003 HK\$'000	2002 HK\$'000
Land and buildings	2,105	2,210
Time deposits	–	11,961
Other receivables	90,784	85,477
Trade receivables	64,194	47,054
	157,083	146,702

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	1,121	1,283	–	–
Bills discounted with recourse	12,043	21,771	–	–
Trade receivables factored with recourse	23	258	–	–
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	–	–	714,400	725,702
Third party	–	3,774	–	–
	13,187	27,086	714,400	725,702

As at 31 December 2003, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$172 million (2002: HK\$206 million).

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements with an average lease term of one to two years. The Group also subleases certain of its rented shops under operating lease arrangements with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Investment properties:		
Within one year	3,656	1,495
In the second to fifth years, inclusive	1,241	527
	4,897	2,022
Subleases:		
Within one year	2,403	2,485
In the second to fifth years, inclusive	365	625
	2,768	3,110
	7,665	5,132

Notes to Financial Statements 31 December 2003

36. OPERATING LEASE ARRANGEMENTS (cont'd)

(b) As lessee

The Group leases certain of its office properties, equipment and retail shops under operating lease arrangements. These leases are negotiated for terms ranging from one to eleven years. Under certain lease agreements for the retail shops, contingent rentals in excess of the minimum lease payments are payable if the turnover of such retail shops reaches a pre-determined level.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Land and buildings:		
Within one year	31,710	30,109
In the second to fifth years, inclusive	42,857	48,102
After five years	29,972	3,269
	104,539	81,480
Equipment:		
Within one year	122	117
In the second to fifth years, inclusive	141	239
	263	356
	104,802	81,836

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted, but not provided for	3,703	19,777
	3,703	19,777

Notes to Financial Statements 31 December 2003

37. COMMITMENTS (cont'd)

In addition, the Group's share of the jointly-controlled entities' own capital commitments which are not included in the above was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Authorised, but not contracted for	–	359

- (b) At the balance sheet date, the Group had entered into agreements for forward sales of United States dollars equivalent to HK\$63,024,000 (2002: HK\$172,815,000) for the hedging of foreign currency trade debts in the ordinary course of business.

At the balance sheet date, the Company did not have any significant commitments.

38. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year/period:

	Notes	Group	
		Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities	(i)	37,447	57,909
Purchases of raw materials and finished goods from an associate	(i)	–	3,774
Professional fees paid to Wilkinson & Grist	(ii)	72	611

Notes:

- (i) The purchases of raw materials and finished goods were made according to the published prices and conditions offered to the major customers of the supplier, 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, a director of the Company, is a partner of Wilkinson & Grist.

- (b) During the year, the Group purchased certain fixed assets of approximately HK\$11,620,000 from the Group's jointly-controlled entities at net book value. Further details of the transaction are included in note 33(b).

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2004.

Five Years Financial Summary

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below.

RESULTS

	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000 (Restated)	Year ended 30 September 2001 HK\$'000 (Restated)	Year ended 30 September 2000 HK\$'000 (Restated)	Year ended 30 September 1999 HK\$'000 (Restated)
Turnover	1,917,911	2,173,480	2,325,666	1,852,907	1,643,968
Profit/(loss) before tax	35,264	(20,993)	51,726	136,849	107,134
Tax	(1,998)	(2,192)	(6,621)	(2,797)	(3,723)
Profit/(loss) before minority interests	33,266	(23,185)	45,105	134,052	103,411
Minority interests	–	(727)	(716)	(648)	(483)
Net profit/(loss) attributable to shareholders	33,266	(23,912)	44,389	133,404	102,928

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December 2003 HK\$'000	31 December 2002 HK\$'000 (Restated)	30 September 2001 HK\$'000 (Restated)	30 September 2000 HK\$'000 (Restated)	30 September 1999 HK\$'000 (Restated)
Total assets	1,360,865	1,315,509	1,368,629	1,051,571	899,310
Total liabilities	(755,728)	(741,994)	(749,199)	(480,345)	(320,928)
Minority interests	(9,000)	(9,000)	(19,762)	(18,900)	(15,181)
	596,137	564,515	599,668	552,326	563,201

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, certain accounting treatments have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

Corporate Information

BOARD OF DIRECTORS

Mr. Lam Foo Wah

(Chairman and Managing Director)

Mr. Ip Weng Kun *(Deputy Managing Director)*

Mr. Hui Yip Wing, David

Mr. Wong Shing Loong, Raymond

Ms. So Siu Hang, Patricia

Mr. Chan Wah Tip, Michael, Solicitor

* Mr. Woo King Wai, David

** being independent non-executive director*

SECRETARY

Ms. Chan Wai Wei, Cynthia

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SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG

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10 Chater Road

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LEGAL ADVISERS ON BERMUDA LAW

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2901, One Exchange Square

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PRINCIPAL BANKERS

Standard Chartered Bank

Citibank, N.A.

The Hongkong and Shanghai Banking

Corporation Limited

Citic Ka Wah Bank Limited

KBC Bank N.V.

Fortis Bank Asia HK

The Bank of East Asia, Limited

Bank of China (Hong Kong) Limited

AUDITORS

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