

USI HOLDINGS LIMITED

Annual Report 2004

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USI HOLDINGS LIMITED invests in and operates a balanced range of businesses that provides a combination of steady cash-flow and growth and encompasses three operating areas:

PROPERTY, APPAREL and STRATEGIC INVESTMENTS.

The Group develops high quality residential property projects in addition to holding investment properties. The Waterfront, atop the Airport Railway's Kowloon Station, The Hillgrove, at Siu Lam, The Bloomsville, at Kowloon Tong, The Grandville, at Shatin and The Giverny, at Sai Kung, are developed either jointly with other developers or solely under the WingTai Asia brand in recent years. The Group also provides hospitality management services through Lanson Place serviced residences in Hong Kong and Southeast Asia.

Apparel operations is comprised of well-established garment manufacturing operations in Hong Kong, China and Southeast Asia; garment trading and branded products distribution, which includes the internationally recognised label of Gieves & Hawkes.

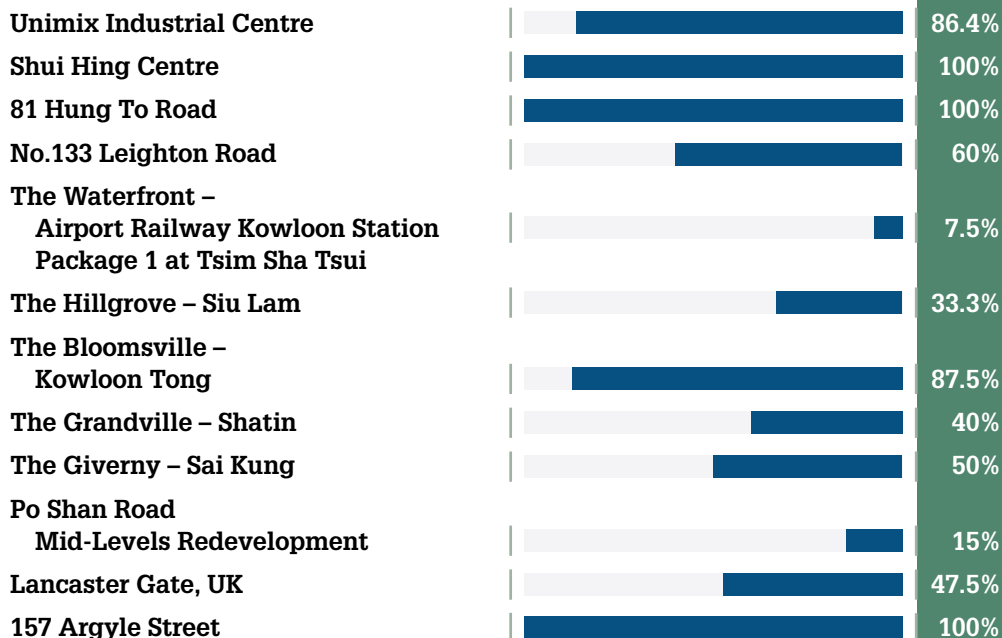
In strategic investments, the Group co-founded SUNDAY Communications Limited, a company listed on the NASDAQ and The Stock Exchange of Hong Kong Limited. SUNDAY is an innovative developer and provider of wireless communications and Internet related services in Hong Kong. The Group also has investments in other information technology and software companies.

USI was listed on The Stock Exchange of Hong Kong Limited in 1991. The Group employs more than 6,000 people worldwide.

: Group Chart

Property

Assets



Management Services



Apparel



Strategic Investments



: Financial Highlights

| For the year ended 31 December (HK\$'M) | The Group | |
|---|---------------------|-------------|
| | 2004 | 2003 |
| Turnover | 1,455.8 | 1,470.6 |
| Gross profit | 324.3 | 310.3 |
| Profit before taxation | 109.0 | 29.1 |
| Taxation | (10.0) | (6.3) |
| Profit before minority interests | 99.0 | 22.8 |
| Minority interests | (5.7) | (4.3) |
| Profit attributable to Shareholders | 93.3 | 18.5 |
| Final dividend proposed of HK1.75 cent per share (2003: HK1.0 cent per share) | 9.2 | 5.2 |
| Earnings per share | | |
| Basic | HK18.0 cents | HK3.6 cents |
| Diluted | HK17.9 cents | HK3.6 cents |

Overview

The Group's net profit for the year ended 31 December 2004 was HK\$93.3 million as compared to HK\$18.5 million in 2003. Turnover for the year was HK\$1,455.8 million, against HK\$1,470.6 million in 2003.

In 2004, Hong Kong's economy showed a healthy recovery from the nadir reached in mid-2003 due to the SARS pandemic. Benefiting from increased domestic consumption and the boom in tourism sparked by the Mainland's "Individual Visit Scheme", business sentiment and consumer confidence strengthened and property prices surged throughout the year, particularly at the luxury end of the market. Taking advantage of the strong property market, the Group generated approximately HK\$3.7 billion in property sales in 2004, of which our revenue share is approximately HK\$1.5 billion (including attributable revenue in associates). Profits from these sales will be reported over the next two years in accordance with our accounting policies and will serve as a solid base for the financial performance of the Group in coming years.

Operations Review

The Group is organised into three divisions: Property, which comprises investments in quality industrial and commercial properties, residential property development in Hong Kong and property management; Apparel, which includes garment manufacturing and branded products distribution; and Strategic Investments.

The residential property market in Hong Kong continued its recovery throughout 2004. The value of Tower 5 of the Waterfront project (now known as Tower V on Union Square) has appreciated by HK\$457 million to HK\$1,930 million (i.e. reaching an average price of HK\$7,200 per square foot at 31 December 2004). Upward trend in

property prices continued into early 2005, at which time we launched the strata-sale of Tower V on Union Square. Up-to-date, we have sold approximately 50% of the residential units in Tower V, achieving an average of HK\$8,000 per square foot for gross revenue totalling approximately HK\$940 million. The Group has a 7.5% interest in this development. In accordance with the Group's accounting policy, the Group's share of the change in the fair market value of Tower V on Union Square of HK\$457 million is reported as a profit in the 2004 accounts whereas revenues and profits pertaining to the sales will be recognised in the 2005 accounts. Together with the profit generated from the sales of other projects, the Group reported an increase in net profit from HK\$38.1 million in 2003 to HK\$94.1 million in 2004 for its property development business.

The Group was able to capture the upswing by launching the pre-sale of The Grandville, in which the Group has a 40% interest, towards the end of the year. Over 90% of the development was sold within approximately one month, with an average price of approximately HK\$7,500 per square foot. Special luxurious units within the development were able to command prices averaging up to HK\$13,000 per square foot. So far, The Grandville has generated revenue of approximately HK\$3.4 billion, of which the Group's 40% share approximates HK\$1.36 billion. As it is the Group's accounting policy to recognise revenue at project completion, revenues and profits pertaining to The Grandville are not expected to impact our accounts until 2006.

On the development side, construction of The Grandville is progressing well and on track for delivery to the purchasers in June 2006. Sales of The Giverny, which is a low-density residential development located in Hebe Haven, Sai Kung and comprising 63 two-storey houses totalling approximately 150,000 square feet, are set to begin in the second half of 2005. The Group has a 50% interest in this project.

In June 2004, Morgan Stanley Real Estate Funds acquired a 40% interest in 133 Leighton Road from the Group. The property is being refurbished as a high-end luxurious boutique hotel/serviced residences. Due to open in the second half of 2005, it will be managed by the Group's hospitality management division, Lanson Place.

In January 2005, the Group was successful in its HK\$250 million bid for 157 Argyle Street. Subject to our respective independent shareholders' approval, Winsor Properties Holdings Limited will become our joint-venture partner by taking up 20% interest in the project. This will further strengthen our strategic alliance in line with our established strategy. It is anticipated that the development will be completed in or around 2007 to complement the Group's portfolio of quality property products.

The recovery in property prices is also evident from the rebound in the value of our industrial properties. Increase in fair market value amounted HK\$39.9 million was reported as profit in the 2004 accounts.

The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an operating profit, excluding restructuring and other one-time costs, of HK\$30.4 million in 2004 as compared to HK\$50.0 million for the year 2003. At HK\$1,032.8 million, turnover showed a small increase in 2004, as against HK\$989.7 million in 2003.

: Chairman's Statement

Many apparel manufacturers aggressively increased capacity in 2004 in anticipation of the abolishment of import quotas on China-origin textile and clothing products in 2005, following China's accession to the World Trade Organisation. This rapid increase in supply, together with inflation of key production costs including increase in minimum wages is one of our major challenge and caused margins to decrease rapidly. Furthermore, both the U.S.A. and the E.C. have announced an intention to review the impact of a surge in textile imports from China. As it now stands, the re-imposition of quotas (under the so-called "anti-surge" provisions) is likely for key garment categories. Confusion in the market place and higher operating costs appear unavoidable and uncertainty will likely reign in the foreseeable future.

With a view to achieving greater operating efficiencies, the Group has been building up a production base in RuYuan, which is on the Hunan border in Northern Guangdong province, over the past few years. RuYuan is further away from Hong Kong than our traditional production base of Dongguan, but it has the advantage of lower labour and other production costs. By early 2005, the Group had completed an additional 240,000-square-foot facilities in RuYuan for the manufacture of woven shirts and fine knitted products.

Gieves & Hawkes plc ("G&H"), the Group's menswear retail and licensing operation in the U.K., recorded a 25.3% increase in sales in 2004 (2004: HK\$214 million vs. 2003: HK\$170.8 million). The strong performance of the Savile Row flagship store, together with the wholesale operation that commenced in mid-2003, also boosted turnover in 2004.

SUNDAY Communications Limited ("SUNDAY") continues to enhance its profitability through improved efficiency. While developments in the mobile telecommunications market have not been favourable in recent years, SUNDAY has been far-sighted in putting in place strategies and infrastructure for success in 3G and the opportunity beyond 3G. For the year ended 31 December 2004, SUNDAY reported its second consecutive full-year net profit of HK\$6 million, after the deduction of HK\$43 million 3G roll-out costs. Its 2G operation recorded a remarkable 81% year-on-year increase in operating profit for a total of HK\$49 million.

Strategic Direction

Since entering the residential property market in 1996, the Group has been steadily forging strategic partnerships and establishing the value and market position of the WingTai Asia brand. The successful launches of The Grandville and Tower V on Union Square have reinforced our position as a developer of premiere residential products. In the future, the Group will continue to look for quality residential project opportunities that will enable us to further strengthen the WingTai Asia brand and grow our property development capabilities.

On the Apparel side, it is becoming evident that the market will remain chaotic as a result of the uncertainties surrounding the application of the anti-surge provisions. As always, the Group will continue to improve its customer base and production efficiencies. In preparation for the threat of import-restrictive measures on our products with the triggering of anti-surge provisions on China, we have already completed a re-alignment of production facilities, including the expansion of our Macau PPE (Processo Produtivo No Exterior) facilities.

Prospects

2004 was a successful year. We have confidence in the long-term outlook of the Hong Kong economy. However, uncertainties still remain as to interest rates, inflationary pressure and oil prices, as well as the sustainability of the current recovery cycle in the U.S.. We believe that our strategies will allow the Group to weather any short-term down cycle while capturing opportunities to create value for our shareholders.

The coming year will be a busy one for the Property Division, with the launch of The Giverny and continuing sales of units at Tower V on Union Square, as well as the opening of the Lanson Place luxurious boutique hotel/serviced residences at 133 Leighton Road. Given the continued strength of the residential property market and our record of sales to date, year 2005 looks promising.

The Group's garment manufacturing operation now faces a deteriorating operating environment which is not likely to improve until the excess capacity situation in the market has been resolved through, for example, market consolidation. However, we remain confident in the long-term profitability of our business as we continue to focus on improving production quality and responsiveness while seeking opportunities to expand sales and target new market niches here and overseas.

Vote of Thanks

On behalf of the Board of Directors, I would like to thank our management, staff and consultants for their determination and continuing efforts to build a solid foundation for growth and prosperity.

Cheng Wai Chee, Christopher

Chairman

Property



Property Development

In 2004, the Group reported a net profit from its Property Division of HK\$94.1 million as compared to HK\$38.1 million in 2003. The profit from the Property Division in 2004 mainly came from the appreciation in the market value of Tower 5 of the Waterfront project (now known as Tower V on Union Square) and sales of the remaining units of completed projects, namely the Bloomsville and the Waterfront.





: Management Discussion and Analysis – Property



The residential property market in Hong Kong continued its recovery throughout 2004. The market value of Tower V on Union Square appreciated by HK\$457 million to HK\$1,930 million (i.e. reaching an average price of HK\$7,200 per sq.ft.). High property prices continued into early 2005, at which time we launched the strata-sale of Tower V on Union Square. To-date, we have sold approximately 50% of the residential units in Tower V, achieving an average of HK\$8,000 per sq.ft. for gross revenue totalling approximately HK\$940 million. In accordance with the Group's accounting policy, the Group's 7.5% share of the change in the market value of Tower V on Union Square of HK\$457 million is reported as a profit in the 2004 accounts, whereas revenues and profits pertaining to the sales will be recognised in the 2005 accounts.

At the end of 2004, the Group successfully launched the pre-sale of The Grandville (the Group has a 40% interest). Over 90% of the development was sold within approximately one month with an average price of approximately HK\$7,500 per sq.ft.. Special luxurious units within the development were able to command prices averaging up-to HK\$13,000 per sq.ft.. The Grandville has generated approximately HK\$3.4 billion of revenue (our 40% share is approximately HK\$1.36 billion). As it is the Group's accounting policy to recognise revenue at completion of project, revenues and profits pertaining to the Grandville project is not expected to be recognised in our accounts until 2006.

The Giverny, (which the Group has a 50% interest) is a low density residential development comprising 63 two-storey houses totalling approximately 150,000 sq.ft.. The Giverny is located in Hebe Haven, Sai Kung and is targeted to be completed and put on sale in the second half of 2005.

Development of the Group's overseas projects is also adding momentum to the Group's expansion in the property business. Kovan Melody in Singapore (the Group has a 12% interest) was launched for private sales in late August 2004 and 338 units were sold up to 2004. The sales launch of Lancaster Gate (the Group has a 47.5% interest) in London is deferred to 2005.

In January 2005, the Group successfully acquired 157 Argyle Street for a bid of HK\$250 million. Subject to our respective independent shareholders' approval, Winsor Properties Holdings Limited will be our joint venture partner by taking up 20% interest in the project. This will further strengthen our strategic alliance in line with our long term strategy. It is anticipated the development will be completed in or about 2007 and add to the Group's portfolio of quality property products.

Investment Property

The refurbishment of the Group's property at 133 Leighton Road is targeted to be completed in the second half of 2005 and a high-end luxurious boutique hotel/serviced residences operation will commence. The property is to be managed by the Group's hospitality management division, Lanson Place. In June 2004, Morgan Stanley Real Estate Funds acquired a 40% interest in this property from the Group.

With significant improvement in property prices, the market value of the Group's three Hong Kong industrial properties at Shui Hing Centre, Unimix Industrial Centre and 81 Hung To Road, appreciated by HK\$39.9 million in 2004. Occupancy rates of these properties improved gradually during the year as the industrial property rental market recovered. Occupancy rate at the year end were similar to last year at around 90%.

Property Management Services

Lanson Place has established a reputation as one of the most preferred service apartments brands in the regions luxury leasing market.

In Kuala Lumpur, the occupancy of Lanson Place Ambassador Row serviced apartment was at 75%. Kondo 8 Ampang Hilir maintained its position as one of the leading condominiums in the Ampang area and continued to outperform the market with 95% occupancy in 2004.

Due to tight housing allowance budgets, corporate demand in Singapore remained slow in 2004 and rental rates were under pressure. Notwithstanding this, occupancy at Lanson Place Winsland was at 85% as compared to the market average of 80%.

In Hong Kong, Lanson Place operation at Tower V on the Union Square was able to record an average occupancy of 88% in 2004, based on an inventory of 162 apartments as compared to 67% for 134 apartments in 2003. The Lanson Place operation at Tower V had added significant value to the property which was launched for strata-sales in early 2005. The 133 Leighton Road property in Hong Kong is under renovation for launch towards the end of 2005. This will allow Lanson Place to further strengthen its operations in Hong Kong.

The Group will continue to develop its Lanson Place operation at strategic locations and seek promising opportunities in Greater China.

Apparel

While our Apparel division was able to record a slight increase in turnover for the first half of the year, many of our customers delayed their 2004 delivery to early 2005 to enjoy quota free prices. As a result, the turnover of our manufacturing division in 2004 was HK\$1,032.8 million (as compared to HK\$989.7 million in 2003). As uncertainty surrounding the quota elimination continues, price competition was intense and, as expected, contribution margin deteriorated. The Group's garment manufacturing operations, through Shui Hing Textiles International Limited and Unimix Holdings Limited, contributed an operating profit, excluding restructuring and other costs, of HK\$30.4 million as compared to HK\$50.0 million for the year 2003.





: Management Discussion and Analysis – Apparel



Gieves & Hawkes plc

We expect the adverse operating conditions encountered in 2004 to continue to put pressure on price and margin in 2005. Uncertainty over the anti-surge mechanism, increased costs due to inflation, compliance and increased minimum wage requirements, and more burdensome and costly export application for China, etc will continue to cloud the business environment for apparel manufacturing. These factors are our major challenges in 2005. The Group continues to streamline operation to improve efficiency. In 2005, the development of our Ruyuan facilities will be completed to lower our manufacturing cost base. On the other hand, we are developing production facilities in Macau to maintain our flexibility in producing products in Hong Kong, Macau, China and Cambodia. In addition, we have been streamlining our operations and closing down non-core business units. With these initiatives, we are confident in the long term profitability despite depression and volatility in the short term.



Gieves & Hawkes plc

Gieves & Hawkes plc ("G&H"), the Group's menswear retail and licensing operations in the UK, recorded a 25.3% increase in sales in 2004 (2004: HK\$214.0 million, 2003: HK\$170.8 million). Sales at the two new concession stores at House of Fraser in London and Harvey Nichols, Knightsbridge (opened in September 2003 and February 2004 respectively) more than offset the sales lost for the two stores closed in early 2003. The strong performance at the Savile Row flagship store, together with the wholesale operation that commenced in mid-2003, also boosted turnover in 2004.

In September 2004, a new licensee for Japan was appointed. The new licence arrangement will provide G&H a healthy stream of income for four years commencing 2005.

In line with the Group's medium-term strategy to increase sales and profitability and to bolster the GIEVES & HAWKES and the GIEVES brands, G&H will continue to focus on developing its wholesale and license operations as well as expansion of retail points at strategic locations.



Strategic Investments



SUNDAY Communications Limited

SUNDAY Communications Limited (“SUNDAY”) recorded its second consecutive profitable year in 2004 despite continued intense market competition and initial 3G roll-out costs. Net profit for the year was HK\$6 million. During 2004, SUNDAY focused its energies on preparing for the launch of its 3G services, while continuing to improve the quality and efficiency of its operations.

SUNDAY'S VISION

is to be one of the most innovative wireless communications companies in the region.

SUNDAY'S MISSION

is to always surpass and exceed stakeholders' expectations, enriching and making a difference to their lives.



: Management Discussion and Analysis – Strategic Investments



Recognising the short-sightedness of competing aggressively on price in the current commoditised market, while maintaining its competitiveness in the market, SUNDAY continued to invest in network and service quality and to focus on market segmentation, with the view to laying a strong foundation for an advantageous starting position in the high value-added market that 3G technology will usher in 2005. As a result, despite difficult market conditions, SUNDAY grew its mobile subscriber base, which increased by 4% to 684,000, and reduced churn in 2004. However, revenue from the mobile services business for 2004 declined by 10% to HK\$1,032 million from HK\$1,150 million in 2003 as ARPU in 2004 fell to HK\$180, in line with an industry-wide decline.

SUNDAY has been implementing a number of initiatives since 2002, including the establishment of an operations centre in Shenzhen, China to create a leaner and more efficient structure. Total operating expenses (excluding depreciation) in 2004 was 12% lower than that in 2003, representing a reduction of HK\$75 million, despite the impact of 3G start-up costs. However, due to lower revenues and initial 3G related costs, net profit decreased from HK\$27 million in 2003 to HK\$6 million in 2004.

The fundamentals have been in place for launch of the 3G services by SUNDAY, which is planned to be the second quarter of 2005. The company also expects that more 3G handsets with functionality and cost demanded by customers will be available from a wide variety of manufacturers in the second half of 2005.

SUNDAY's shares are listed on The Stock Exchange of Hong Kong Limited and the NASDAQ National Market in the United States. The Group owns 13.7% of SUNDAY.

Mission System Consultant Limited

The Group owns 50% of Mission System Consultant Limited ("MSC"), a software provider offering Enterprise Resources Planning solutions to garment manufacturers and traders.

In 2004, MSC strengthened its market position by further securing larger local and international clients. MSC is in the process of developing their application with Ann Taylor and is on track to release the first version of its global application this year (2005). MSC is uniquely positioned to compete in the global sourcing application space where there are few competitors. MSC's dominant position in Asia will be an obvious competitive edge for success in 2005 and beyond.

Subsequent to the year end, MSC issued new shares to an executive and the Group's interest in MSC was diluted to 42.5%.

UBC Media Group Plc

In June 2004, the Group completed the share-for-share exchange in Oneword Radio Limited for shares in UBC Media Group Plc ("UBC"). UBC is a leading independent programme producer and radio broadcasting company listed in the A.I.M. market in London.

: Management Discussion and Analysis

Segmental Information

The analysis of the Group's turnover and profit from operations by business segment and geographical segment is as follows:

| For the year ended 31 December | Turnover | | Profit from operations | |
|-----------------------------------|----------------|----------------|------------------------|----------------|
| | 2004 HK\$'M | 2003 HK\$'M | 2004 HK\$'M | 2003 HK\$'M |
| Business segment | | | | |
| Garment manufacturing and trading | 1,107.6 | 1,061.2 | 15.6 | 40.5 |
| Branded products distribution | 214.0 | 170.8 | (1.1) | (10.8) |
| Property development | 61.5 | 167.9 | 39.9 | 25.0 |
| Property rental and management | 58.4 | 59.2 | 49.1 | 11.7 |
| Investing activities | 14.3 | 11.5 | 4.9 | 14.5 |
| Unallocated corporate expenses | – | – | (49.5) | (31.6) |
| | 1,455.8 | 1,470.6 | 58.9 | 49.3 |
| Geographical segment | | | | |
| North America | 853.0 | 781.8 | 9.4 | 27.7 |
| Hong Kong | 138.5 | 257.8 | 48.2 | 21.7 |
| United Kingdom | 262.0 | 253.5 | (2.8) | (8.7) |
| Other European countries | 119.7 | 114.0 | (0.3) | 4.2 |
| Other areas | 82.6 | 63.5 | 4.4 | 4.4 |
| | 1,455.8 | 1,470.6 | 58.9 | 49.3 |

Liquidity and Financial Resources

The Group's shareholders' funds totalled HK\$1,364.9 million as at 31 December 2004 as compared to HK\$1,258.5 million as at the end of 2003. The increase in shareholders' funds was mainly attributed to the profit for the year 2004 of HK\$93.3 million offset by the distribution of the 2003 final dividend in the first half of 2004.

As at 31 December 2004, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$623.1 million (2003: HK\$580.1 million), representing 45.7% of the Group's net assets, which is comparable to the 46.1% recorded at the end of 2003. Interest for the Group's bank borrowings was mainly on a floating rate basis. A majority (around 92%) of the Group's bank borrowings was repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$500 million as at the end of 2004 (2003: HK\$300 million).

Foreign Currencies

The Group continues to conduct its business mainly in United States Dollars and Hong Kong Dollars. For transactions in other foreign currencies, we have a policy to hedge most such dealings. In addition, the majority of our assets are situated in Hong Kong. Thus, our exposure to exchange rate fluctuations is minimal.

Contingent Liabilities

As at 31 December 2004, the Group's contingent liabilities were guarantees given to banks, mainly in respect of utilised credit facilities extended to associates, of HK\$303.1 million, and export bills discounted with recourse amounting to HK\$0.9 million.

Pledge of Assets

As at the balance sheet date, certain of the Group's investment properties, properties for own use and properties under development with carrying value of HK\$539.0 million, HK\$209.8 million and HK\$327.2 million respectively were pledged to secure credit facilities for the Group.

The Group's advances to associates, which are engaged in property development, as at 31 December 2004 of HK\$348.8 million are subordinated to the loans facilities of associates. The Group's advances to the associates include amounts of HK\$323.4 million which are assigned, and the shares in these associates beneficially owned by the Group are pledged, to financial institutions.

Employees

As at 31 December 2004, the Group had in excess of 6,000 staff and workers. The Group offers comprehensive remuneration and benefit packages to its employees, which are structured according to the prevailing salary levels in the market, individual merit and performance. The Group has a mandatory provident fund scheme to provide retirement benefits for all of its employees in Hong Kong. In addition, there is a defined contribution top-up scheme for qualifying employees of certain Hong Kong subsidiaries of the Group. The Group also operates a funded defined benefit pension scheme for certain overseas employees engaged prior to May 2001.

Employees, including executive directors, are eligible under the Company's share option scheme in which the share options are generally exercisable in stages within a period of one to five years from the date of grant.

: Directors and Senior Management Profile

Executive Directors

Mr. CHENG Wai Chee, Christopher, JP, aged 56, was appointed Chairman of the Company in 1991. He is also Chairman of Winsor Properties Holdings Limited. Mr. Cheng is a director of several listed companies in Hong Kong, including NWS Holdings Limited, New World China Land Limited and PICC Property and Casualty Company Limited. He is also a director of DBS Bank (Hong Kong) Limited. Mr. Cheng graduated from the University of Notre Dame with a BBA degree, and also graduated from Columbia University with a MBA degree.

Mr. Cheng plays an active role in public service. He is the Chairman of the Standing Committee on Judicial Salaries and Conditions of Service and a member of the Exchange Fund Advisory Committee of the Government of HKSAR, a member of the Council of University of Hong Kong, a steward of The Hong Kong Jockey Club, a non-executive director of the Securities and Futures Commission and the former Chairman of the Hong Kong General Chamber of Commerce. Mr. Cheng is a brother of Mr. Cheng Wai Keung, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis.

Mr. CHENG Wai Sun, Edward, aged 49, was appointed Chief Executive of the Company in 1994. Mr. Cheng is also Co-Chairman of SUNDAY Communications Limited. SUNDAY, a cellular communication services provider in Hong Kong, is listed on the NASDAQ and the Hong Kong Stock Exchange. Mr. Cheng has a master degree from Oxford University. He was qualified as a solicitor in the United Kingdom and Hong Kong.

Mr. Cheng is the Chairman of the Urban Renewal Authority, a member of the Hong Kong SAR Government's Steering Committee on Innovation & Technology, the Advisory Committee on Corruption of the Independent Commission Against Corruption, the Council of City

University of Hong Kong and the Council of the Hong Kong Institute of Certified Public Accountants. Mr. Cheng is a brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Keung and Mr. Cheng Man Piu, Francis.

Mr. CHENG Man Piu, Francis, aged 52, was appointed executive director of the Company in 1991. He is the Assistant Managing Director of Wing Tai Corporation Limited. He graduated from the University of Wisconsin with a Bachelor of Science degree in Industrial Engineering and a MBA degree. Mr. Cheng is the Chairman of Group 24 in the Federation of Hong Kong Industries, the Vice-Chairman of the Federation of Hong Kong Garment Manufacturers. He is also a director of the Chinese Manufacturers' Association of Hong Kong and the Textile Council of Hong Kong Limited and a member of Trade and Industrial Advisory Board. Mr. Cheng is a brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Keung and Mr. Cheng Wai Sun, Edward.

Mr. NG Tak Wai, Frederick, aged 47, was appointed executive director of the Company in 1995. He graduated from Georgetown University with a BSBA degree, and also graduated from Columbia University with a MBA degree. He has held senior management positions in various garment manufacturing and distribution companies affiliated with the Wing Tai Group. His background is in manufacturing operations and management information systems. Mr. Ng is a director of The Federation of Hong Kong Garment Manufacturers.

Mr. AU Hing Lun, Dennis, aged 45, was appointed executive director of the Company in 2004. He is the Chief Financial Officer and the Company Secretary of the Group. Mr. Au holds a Master of Business Administration and a Bachelor of Science degrees. He is a fellow member of The Association of Chartered Certified Accountants.

Non-executive Directors

Mr. CHENG Wai Keung, aged 54, was appointed non-executive director of the Company in 1991. He is the Chairman and Managing Director of Wing Tai Holdings Limited as well as non-executive Chairman of both Neptune Orient Lines Ltd. and Raffles Holdings Limited, all of which are listed on the Singapore Exchange Limited. He graduated from Indiana University with a Bachelor of Science degree and holds a MBA degree from University of Chicago. Mr. Cheng is a brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis.

Mr. KWOK Ping Luen, Raymond, aged 51, was appointed non-executive director of the Company in 1991. He is Vice Chairman and Managing Director of Sun Hung Kai Properties Limited. He holds a Master of Arts degree in Law from Cambridge University, a Master degree in Business Administration from Harvard University, an Honorary Doctorate degree in Laws from The Chinese University of Hong Kong and an Honorary Doctorate degree in Business Administration from The Open University of Hong Kong. He is Chairman of SUNeVision Holdings Ltd., Chairman of SmarTone Telecommunications Holdings Limited and a Director of The Kowloon Motor Bus Holdings Limited and an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

In civic activities, Mr. Kwok is a non-executive Director of the Securities and Futures Commission, a Director of The Real Estate Developers Association of Hong Kong, a Member of the General Committee of The Hong Kong General Chamber of Commerce, a Member of the Hong Kong Port Development Council and Vice-Chairman of the Council of The Chinese University of Hong Kong. He is also Chairman of the Management Committees of the Police Children's Education Trust and the Police Education and Welfare Trust.

Mr. WONG Yick Kam, Michael, aged 53, was appointed non-executive director of the Company in 2002. He obtained his Bachelor's and Master's degrees in Business Administration from the Chinese University of Hong Kong. Mr. Wong is an executive director of Sun Hung Kai Properties Limited and SUNeVision Holdings Limited. He is Deputy Chairman of Roadshow Holdings Limited and a non-executive director of SmarTone Telecommunications Holdings Limited. In addition, Mr. Wong is Chairman of the Hong Kong Youth Hostels Association. Mr. Wong is also an alternate director to Mr. Kwok Ping Luen, Raymond.

Mr. HONG Pak Cheung, William, aged 50, was appointed non-executive director of the Company in 2002. He received a Bachelor of Science degree in Mathematics from the University of Saskatchewan in Canada and completed the Advanced Management Program at Harvard University Graduate School of Business. Mr. Hong currently holds the position of Manager at Sun Hung Kai Properties Limited.

: Directors and Senior Management Profile

Independent Non-executive Directors

Mr. Simon MURRAY, *CBE*, aged 65, was appointed independent non-executive director of the Company in 1994. He is the Chairman of General Enterprise Management Services Limited, a private equity fund management company sponsored by Simon Murray & Associates. Before this, Mr. Murray has been the Executive Chairman Asia/Pacific of the Deutsche Bank Group. He is a director of a number of public companies including Cheung Kong Holdings, Hutchison Whampoa Limited and Orient Overseas (International) Limited.

Mr. FANG Hung, Kenneth, *GBS, JP*, aged 66, was appointed independent non-executive director of the Company in 1997. He is the Chairman of Fang Brothers Knitting Limited. Mr. Fang graduated from Massachusetts Institute of Technology, U.S.A. in 1961 with a Master's degree in Chemical Engineering. He is an Honorary Chairman of Hong Kong Textile Council, an Honorary President of Hong Kong Woollen and Synthetic Knitting Manufacturers' Association and a member of Textile Advisory Board. Mr. Fang is the Chairman of Yeebo (International Holdings) Limited. Mr. Fang is also an independent non-executive director of Jiangsu Expressway Company Limited.

Mr. YEUNG Kit Shing, Jackson, aged 55, was appointed independent non-executive director of the Company on 16 September 2004. He is the Chairman of the Audit Committee of the Company. Mr. Yeung has over 25 years of experience in finance and accounting. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung holds a Master of Professional Accounting Degree from the Hong Kong Polytechnic University.

Senior Management Staff

Mr. CHUNG Siu Wah, Henry, aged 50, is the General Counsel of the Group. He joined the Group in 1993. Mr. Chung holds a Master's Degree in Electronic Commerce and Internet Computing, a Bachelor's Degree in Laws, a Bachelor's Degree in Business Administration, Professional Certificate in Chinese Civil & Commercial Law and a Postgraduate Certificate in Foundation of Chinese Law. He is a Barrister, a Certified Accountant and a Chartered Secretary.

Ms. LI KAN Fung Ling, Karen, aged 43, is the Director of Corporate Development, joined the Group in 1994. She has over 10 years of experience in strategic planning and implementation with Wharf Hotels Investment Limited (H. K.), Hilton Hotels Corporation (Beverly Hills) and MCI Communications Corporation (Washington, D.C.). She holds a BBA degree in Hotels and Tourism Management from University of Hawaii and a MBA degree in Finance and International Business from George Washington University, Washington, D.C.

: Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

The Group's associates are principally engaged in property development.

Details of the Company's principal subsidiaries and Group's principal associates at 31 December 2004 are set out in notes 38 and 39 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 39.

The directors recommended a final dividend of HK1.75 cent per share for the year ended 31 December 2004 (2003: HK1.0 cent per share) to be payable in cash to shareholders whose names appear on the Register of Members of the Company on 17 June 2005 and the retention of the remaining profit for the year of HK\$84.1 million. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable to shareholders on 24 June 2005.

SHARE CAPITAL

Details of changes in the Company's share capital as at 31 December 2004 are set out in note 25 to the financial statements.

RESERVES

Movements in the reserves of the Group and of the Company are set out in note 27 to the financial statements.

INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2004 on an open market value basis. Movements during the year are set out in note 12 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2004 is set out on pages 95 and 96.

PROPERTIES UNDER DEVELOPMENT

Details of the Group's properties under development at 31 December 2004 are set out on page 97. Movements during the year are set out in note 13 to the financial statements.

OTHER PROPERTIES, PLANT AND EQUIPMENT

Details of the Group's other properties, plant and equipment are set out in note 14 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$0.1 million.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 37 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

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

Executive directors:

CHENG Wai Chee, Christopher *JP, Chairman*

CHENG Wai Sun, Edward *Chief Executive*

CHENG Man Piu, Francis

NG Tak Wai, Frederick

AU Hing Lun, Dennis (appointed on 5 February 2004)

Non-executive directors:

CHENG Wai Keung

KWOK Ping Luen, Raymond

WONG Yick Kam, Michael (also an alternate to KWOK Ping Luen, Raymond)

HONG Pak Cheung, William

Independent non-executive directors:

Simon MURRAY *CBE*

FANG Hung, Kenneth *GBS JP*

YEUNG Kit Shing, Jackson (appointed on 16 September 2004)

In accordance with Bye-law 100 of the Company's Bye-laws, Mr. Cheng Man Piu, Francis, Mr. Cheng Wai Keung, Mr. Kwok Ping Luen, Raymond and Mr. Fang Hung, Kenneth will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

: Directors' Report

In accordance with Bye-law 103(B) of the Company's Bye-laws, Mr. Yeung Kit Shing, Jackson shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

All directors, except the Chairman of the Company, are subject to retirement by rotation as required by the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CORPORATE GOVERNANCE

The directors of the Company confirm that the Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules") which were then in force, except that the non-executive directors are not appointed for a specific terms but are subject to retirement by rotation in accordance with the Bye-laws of the Company.

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

The Code of Best Practice set out in Appendix 14 to the Listing Rules was replaced by the Code on Corporate Governance Practices ("CCG") which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the CCG.

SUFFICIENCY OF PUBLIC FLOAT

The company has maintained a sufficient public float throughout the year ended 31 December 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct for securities transactions by directors of the Company.

The Company has made specific enquiries of all directors regarding any non-compliance with the Model Code during the year, and received confirmation from all the directors that they had fully complied with the required standard set out in the Model Code throughout the year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors and a non-executive director, namely, Mr. Simon Murray, Mr. Fang Hung, Kenneth, Mr. Yeung Kit Shing, Jackson and Mr. Wong Yick Kam, Michael. During the year, Mr. Simon Murray resigned as the Chairman of the Audit Committee and Mr. Yeung Kit Shing, Jackson was appointed the Chairman of the Audit Committee in his place. Mr. Yeung has appropriate professional qualification and experience in financial matters. In addition, the Company has updated the terms of reference of the Audit Committee by adopting "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants in February 2002 as the new terms of reference of the Audit Committee.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control, auditing and financial reporting matters in respect of the annual report including a review of the audited consolidated financial statements of the Company for the year ended 31 December 2004.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2004, the interests of the directors and chief executive of the Company in the shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| Name of director | Number of shares held | | | | Total | Percentage of the Company's issued share capital |
|-----------------------------|-----------------------|------------------|---------------------|-----------------|-------------|--|
| | Personal interests | Family interests | Corporate interests | Other interests | | |
| Cheng Wai Chee, Christopher | 2,075,999 | – | 150,409,086 | 110,595,862 | 263,080,947 | 50.00% |
| | | | Note (a) | Note (b) | | |
| Cheng Wai Sun, Edward | 2,000,000 | – | – | 110,595,862 | 112,595,862 | 21.40% |
| | | | | Note (b) | | |
| Cheng Man Piu, Francis | – | – | – | 110,595,862 | 110,595,862 | 21.02% |
| | | | | Note (b) | | |
| Cheng Wai Keung | – | – | – | 110,595,862 | 110,595,862 | 21.02% |
| | | | | Note (b) | | |
| Ng Tak Wai, Frederick | 886,000 | 762,000 | – | – | 1,648,000 | 0.31% |
| Au Hing Lun, Dennis | 600,000 | – | – | – | 600,000 | 0.11% |

: Directors' Report

Notes:

- (a) Mr. Cheng Wai Chee, Christopher was deemed to be interested in 150,409,086 shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 14,962,968 shares of the Company respectively.
- (b) Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung were beneficiaries of a trust which assets include indirect interests in 110,595,862 shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out under "Substantial Shareholders" below.

All the interests in shares disclosed under this section are long position. Save as disclosed above, as at 31 December 2004, none of the directors nor the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO; or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Under the Company's share option schemes, certain directors of the Company have personal interests in share options which had been granted to them to subscribe for shares in the Company as follows:

| Name of director | Date of grant | Exercise price per share HK\$ | Number of share options | | |
|-----------------------------|---------------|----------------------------------|-------------------------|---------------------------|---------------------------|
| | | | Outstanding at 1.1.2004 | Exercised during the year | Outstanding at 31.12.2004 |
| Cheng Wai Chee, Christopher | 15.11.1999 | 0.8 | 2,000,000 | (2,000,000) | – |
| Cheng Wai Sun, Edward | 15.11.1999 | 0.8 | 2,000,000 | (2,000,000) | – |
| Ng Tak Wai, Frederick | 15.11.1999 | 0.8 | 860,000 | (860,000) | – |
| Au Hing Lun, Dennis | 15.11.1999 | 0.8 | 600,000 | (600,000) | – |

No options were granted to the Company's directors during the year.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following persons (other than the directors and the chief executive of the Company) had interests in the shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO:

| Name of shareholder | Number of shares beneficially held | % of shareholding |
|--|---------------------------------------|----------------------|
| Brave Dragon Limited | 106,345,862 | 20.21 (Note 1) |
| Wing Tai Holdings Limited | 110,595,862 | 21.02 (Note 2) |
| Deutsche Bank International Trust Co. (Jersey) Limited | 110,595,862 | 21.02 (Note 2) |
| Deutsche Bank International Trust Co. (Cayman) Limited | 110,595,862 | 21.02 (Note 2) |
| Wing Tai Asia Holdings Limited | 110,595,862 | 21.02 (Note 2) |
| Wing Sun Development Private Limited | 110,595,862 | 21.02 (Note 2) |
| Terebene Holdings Inc. | 110,595,862 | 21.02 (Note 2) |
| Winlyn Investment Pte Ltd. | 110,595,862 | 21.02 (Note 2) |
| Bestime Resources Limited | 68,747,996 | 13.06 (Note 3) |
| Pofung Investments Limited | 66,698,122 | 12.67 (Note 3) |
| Wing Tai Corporation Limited | 135,446,118 | 25.74 (Note 3) |
| Wesmore Limited | 83,946,158 | 15.95 (Note 4) |
| Sun Hung Kai Properties Limited | 101,392,150 | 19.27 (Note 4) |
| Lo Yuk Sui | 51,676,000 | 9.82 (Note 5a) |
| Century City International Holdings Limited | 51,676,000 | 9.82 (Note 5a) |
| Century City BVI Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Paliburg Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Paliburg Development BVI Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Paliburg International Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Paliburg BVI Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Regal Hotels International Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Regal International (BVI) Holdings Limited | 51,676,000 | 9.82 (Note 5b) |
| Real Chance Profits Limited | 51,676,000 | 9.82 (Note 5b) |
| HK 168 Limited | 51,676,000 | 9.82 (Note 5b) |

Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 100% of the issued shares of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 shares of the Company.
- (2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust (in which Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung were beneficiaries) which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the

: Directors' Report

trustee of the Unit Trust which beneficially owned 100% of the issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc., Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Private Limited, held 28.2% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Ltd. which in turn held 9.2% of the issued shares of Wing Tai Holdings Limited.

- (3) Wing Tai Corporation Limited beneficially owned 100% of the issued share capital of Bestime Resources Limited and Pofung Investments Limited and therefore, it was deemed to be interested in the shares of the Company beneficially owned by Bestime Resources Limited and Pofung Investments Limited.
- (4) Sun Hung Kai Properties Limited ("SHKP") beneficially owned 100% of the issued share capital of Soundworld Limited, Techglory Limited and Wesmore Limited. SHKP was deemed to be interested in the shares of the Company owned by Soundworld Limited, Techglory Limited and Wesmore Limited by virtue of its corporate interests in these companies. Soundworld Limited was the beneficial owner of 16,260,992 shares of the Company and Techglory Limited was the beneficial owner of 1,185,000 shares of the Company.
- (5)
 - (a) These shares were held through the companies controlled by Century City International Holdings Limited ("CCIHL"), of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder. 51,676,000 shares of the Company were beneficially owned by HK 168 Limited ("HK 168"), in which shares Real Chance Profits Limited, Regal International (BVI) Holdings Limited, Regal Hotels International Holdings Limited, Paliburg BVI Holdings Limited, Paliburg International Holdings Limited, Paliburg Development BVI Holdings Limited, Paliburg Holdings Limited, Century City BVI Holdings Limited and CCIHL were deemed to have an interest through their direct or indirect shareholding interests in HK 168. These interests in 51,676,000 shares are duplicated amongst Mr. Lo Yuk Sui and all these companies.
 - (b) These companies are controlled by CCIHL.

All the interests in shares disclosed under this section represent long position.

Save as disclosed above, as at 31 December 2004, the Company is not aware of any other person (other than the directors and the chief executive of the Company) who has an interest or a short position in the shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEMES

Details of the share option schemes of the Company are set out in note 26 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward and Cheng Man Piu, Francis are substantial shareholders of Wing Tai (Cheng) Holdings Limited and Pacific Investment Exponents Inc. (the "Group One Companies"). Messrs. Cheng Wai Chee, Christopher and Cheng Man Piu, Francis are directors of Wing Tai (Cheng) Holdings Limited. Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward and Cheng Man Piu, Francis are directors of Pacific Investment Exponents Inc.

Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Garment Industrial Holdings Limited (the "Group Two Company"). Messrs. Cheng Wai Chee, Christopher and Cheng Man Piu, Francis are directors of the Group Two Company.

Messrs. Cheng Wai Chee, Christopher, Cheng Wai Sun, Edward, Cheng Man Piu, Francis and Cheng Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Asia Holdings Limited and Terebene Holdings Limited (the "Group Three Companies"). Mr. Cheng Wai Keung is a director of the Group Three Companies.

Certain companies controlled by the Group One Companies and the Group Two Company carry on garment business in China, Cambodia and Madagascar which may be regarded as competitive to the Group's apparel business.

Certain companies affiliated with the Group Three Companies carry on garment business in Malaysia and Sri-Lanka which might be regarded as competitive to the Group's apparel business.

The Group's management team is separated from and independent of those of the Group One Companies, Group Two Company and Group Three Companies. The Group's management team has been instructed that whatever businesses to be transacted with the Group One Companies, Group Two Company, Group Three Companies and/or any companies controlled thereby or affiliated therewith shall be transacted at arm's length. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its business independently of, and at arm's length from the aforesaid garment businesses.

Messrs. Cheng Wai Chee, Christopher and Cheng Wai Sun, Edward are non-executive directors of and interested in Winsor Properties Holdings Limited ("WPHL"). Mr. Au Hing Lun, Dennis is an alternate director to Messrs. Cheng Wai Chee, Christopher and Cheng Wai Sun, Edward in WPHL. The industrial buildings rental business and the property development business of WPHL may be regarded as competitive to the Group's property rental business and property development business respectively.

The Group's management team is separated from and independent of the management team of WPHL. The Group's management team has been instructed that whatever businesses to be transacted with WPHL and/or

: Directors' Report

any companies controlled thereby or affiliated therewith shall be transacted at arm's length. The industrial buildings rental by the Group and WPHL are targeting at different customer bases and different market segments. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its businesses independently of, and at arm's length from the aforesaid industrial property rental business and property development business of WPHL.

Messrs. Kwok Ping Luen, Raymond and Wong Yick Kam, Michael are directors of Sun Hung Kai Properties Limited ("SHKP"). Businesses of SHKP consist of property development and investment. Only in this respect they are regarded to be interested in the relevant competing business with the Group.

Messrs. Kwok Ping Luen, Raymond and Wong Yick Kam, Michael are directors of SUNeVision Holdings Limited ("SUNeVision"). Businesses of SUNeVision consist of internet services. Only in this respect they are regarded to be interested in the relevant competing business with the Group.

Mr. Kwok Ping Luen, Raymond is a director of The Kowloon Motor Bus Holdings Limited ("KMB"). Businesses of KMB consist of property development and investment. Only in this respect he is regarded to be interested in the relevant competing business with the Group.

The aforesaid competing businesses, in which Messrs. Kwok Ping Luen, Raymond and Wong Yick Kam, Michael are regarded to be interested, are managed by separate publicly listed companies with independent management and administration. In this respect, coupled with the diligence of its independent non-executive directors and the Audit Committee, the Group is capable of carrying on its business independently of, and at arm's length from the said competing businesses.

CONNECTED TRANSACTIONS

- (1) As previously reported, the Company (through a wholly-owned subsidiary) had granted certain loans (the "Shareholders' Loans") to Union Charm Development Limited ("UCD") in proportion to the Company's equity interest in UCD.

The Company has a 7.5% attributable indirect interest in UCD, held through Avondale Properties Limited ("Avondale"), the beneficial owner of the entire issued ordinary share capital of UCD, and Everton Properties Limited ("Everton"), which holds 15% of the issued share capital of Avondale and 15% of the issued participating preference shares of UCD. Each of World-Wide Investment Company (Bermuda) Limited and a wholly owned subsidiary of the Company holds 50% of the issued share capital of Everton.

On 12 March 2001, UCD entered into a loan agreement with The Hongkong and Shanghai Banking Corporation Limited (the "Lender") pursuant to which the Lender has agreed to provide loan facilities for an aggregate amount of HK\$2,950 million to UCD (the "Loan Facilities"). Amounts drawn thereunder carry interest at a rate based on the Hong Kong inter-bank offered rate. On 19 February 2004, the outstanding balance of the Loan Facilities amounted to HK\$418 million.

On 19 February 2004, UCD entered into a supplemental loan agreement with the Lender (the "Supplemental Loan Agreement") pursuant to which the Lender has agreed to UCD re-borrowing a principal amount of HK\$983,000,000 under the Loan Facilities for the purpose of re-financing part of the Shareholders' Loans and to extend the maturity date of the Loan Facilities to 19 February 2009.

As part of the security package for the Loan Facilities, the Company, a wholly-owned subsidiary thereof and Everton respectively entered into a Deed of Consent and Authorisation (consenting to UCD executing a Security Deed in favour of the Lender), a Subordination Agreement (subordinating the Shareholders' Loans to the loans made by the Lender under the Loan Facilities and Share Mortgage (mortgaging the Group's shareholding in UCD to the Lender) (collectively the "Security Documents"). Confirmation letters in respect of the Security Documents were signed for the purpose of acknowledging and confirming the Supplemental Loan Agreement.

Wing Tai Holdings Limited ("WTH"), a substantial shareholder of the Company, which has a 30% attributable indirect interest in UCD held through Avondale. WTH is a connected person of the Company for the purpose of the Listing Rules.

- (2) In November 2003, the Company through a wholly-owned subsidiary, Kosheen Investments Limited, formed a joint venture company, namely Winwill Investment Pte Ltd ("Winwill"), together with a wholly-owned subsidiary of WTH and a wholly-owned subsidiary of Winsor Properties Holdings Limited ("WPHL") on a 20:60:20 basis.

Winwill is an investment vehicle. It holds a 60% interests in another joint venture company, namely Winhome Investment Pte Ltd ("Winhome"). Other shareholders of Winhome are independent third parties to each of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

Winhome undertakes the development and sale of a residential land parcel at Flower Road/Kovan Road in Singapore. Financial assistance in the form of shareholders' loan provided to Winhome in proportion to the Group's equity interests in Winhome and on normal commercial terms was in an aggregate amount of HK\$49.8 million in 2004.

WPHL is a substantial shareholder of a subsidiary of the Company and hence a connected person of the Company.

- (3) On 1 November 2004, Unimix Properties Limited, a 86.4% owned subsidiary of the Company, entered into a tenancy agreement with Wing Tai Corporation Limited ("WTC") for the leasing of the premises situated at Unit B, 18/F and Unit A, 22/F, Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong for a term of two years commencing on 1 November 2004 at a total rent and management fee of HK\$2,646,067.20 (exclusive of electricity charges for the air-conditioning system) for the two years' lease term payable in 24 monthly payments to be paid in advance on the first date of each month.

WTC is a substantial shareholder of the Company and hence a connected person of the Company.

: Directors' Report

- (4) On 3 December 2004, USI Property Management Limited ("USIPM"), a wholly-owned subsidiary of the Company, entered into a project management agreement ("PM Agreement") with Begin Land Limited ("Begin Land"), a wholly-owned subsidiary of WPHL. Pursuant to the PM Agreement, Begin Land appointed USIPM as the project manager to manage the construction and development of the property situated at 102 How Ming Street, Kwun Tong, Kowloon for a term of approximately 70 months commencing on 1 December 2004 until the date of settlement of the final account in respect of the property project which is expected to be a date not later than 30 September 2010.

The estimated total project management fee payable by Begin Land to USIPM is approximately HK\$7,944,000.

- (5) On 14 March 2005, the Company and WPHL entered into a memorandum of agreement ("MOA") pursuant to which the Company and WPHL intended to form a 80:20 joint venture for the investment and development of the property situated at No. 157 Argyle Street, Kowloon (the "Property"). The Property was acquired by the Company through a wholly-owned subsidiary, Pangold Development Limited ("Pangold"), by way of public tender at the tender purchase price of HK\$250.1 million.

The total investment amount of Pangold in the Property is about HK\$262 million which includes the tender purchase price of the Property and the cost incurred in the acquisition of the Property and other minor expenses. Subject to the fulfillment of the condition precedent referred to in the MOA, the capital of Pangold will be restructured such that the effective interests of the Company and WPHL shall be 80% and 20% respectively. WPHL will also acquire from the Company 20% of the amount due by Pangold to the Company at cost and reimburse the Company 20% of the Company's cost of funding for the said amount. WPHL's total investment in Pangold after such acquisition will be about HK\$52.6 million.

Under the Listing Rules, the aforesaid proposed transaction is a connected transaction of the Company subject to independent shareholders' approval at a special general meeting to be held on 21 April 2005.

All the above transactions were entered into in the ordinary course of business and on normal commercial terms.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 33% of the total value of the Group's turnover and the turnover attributable to the Group's largest customer accounted for approximately 24% of the total value of the Group's turnover. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total value of the Group's purchases.

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

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 31 December 2004, the aggregate amount of financial assistance to and guarantees given for facilities granted to affiliated companies by the Group amounting to HK\$729.3 million in aggregate which exceeded 8% of the percentage ratios as defined in Rule 14.07 of the Listing Rules.

A pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 31 December 2004 are presented below:

| | Pro-forma combined balance sheet HK\$'M | Group's attributable interest HK\$'M |
|-------------------------|--|---|
| Non-current assets | 4,401.8 | 832.1 |
| Current assets | 1,385.4 | 324.5 |
| Current liabilities | (1,150.9) | (401.2) |
| Non-current liabilities | (4,467.5) | (733.3) |
| Net assets | <u>168.8</u> | <u>22.1</u> |

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws although there is no restriction against such rights under the laws in Bermuda.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to appoint the auditors of the Company.

On behalf of the Board

Cheng Wai Chee, Christopher

Chairman

Hong Kong

19 April 2005

Deloitte.

德勤

TO THE SHAREHOLDERS OF USI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 39 to 93 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 Companies Act of Bermuda, 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 Institute of Certified Public Accountants. An audit includes 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 2004 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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

19 April 2005

: Consolidated Income Statement

For the year ended 31 December 2004

| | NOTES | 2004 HK\$'M | 2003 HK\$'M |
|--|-------|---------------------|----------------|
| Turnover | 4 | 1,455.8 | 1,470.6 |
| Cost of sales | | (1,131.5) | (1,160.3) |
| Gross profit | | 324.3 | 310.3 |
| Other operating income | | 39.5 | 38.7 |
| Distribution costs | | (100.2) | (89.9) |
| Administrative expenses | | (252.1) | (221.4) |
| Gain arising from change in fair value of investment properties | | 39.9 | – |
| Reversal of impairment losses in respect of investments the underlying business of which is property development | | 7.5 | 11.6 |
| Profit from operations | 6 | 58.9 | 49.3 |
| Other interest income | | 1.1 | 0.5 |
| Finance costs | 8 | (18.0) | (21.8) |
| Share of results of associates | | 59.4 | 1.1 |
| Gain on disposal of an associate | | 7.6 | – |
| Profit before taxation | | 109.0 | 29.1 |
| Taxation | 9 | (10.0) | (6.3) |
| Profit before minority interests | | 99.0 | 22.8 |
| Minority interests | | (5.7) | (4.3) |
| Net profit for the year | | 93.3 | 18.5 |
| Dividend | 10 | 9.2 | 5.2 |
| Earnings per share | 11 | | |
| – Basic | | HK18.0 cents | HK3.6 cents |
| – Diluted | | HK17.9 cents | HK3.6 cents |

: Consolidated Balance Sheet

At 31 December 2004

| | NOTES | 2004 HK\$'M | 2003 HK\$'M |
|---|-------|----------------|----------------|
| Non-current assets | | | |
| Investment properties | 12 | 541.6 | 559.2 |
| Properties under development | 13 | 327.2 | 303.9 |
| Other properties, plant and equipment | 14 | 332.5 | 258.4 |
| Interest in associates | 16 | 428.1 | 478.2 |
| Investments in securities | 17 | 430.3 | 418.8 |
| Other non-current assets | 18 | 1.6 | 2.8 |
| | | 2,061.3 | 2,021.3 |
| Current assets | | | |
| Inventories | 19 | 133.9 | 131.1 |
| Properties held for sale | 20 | 11.3 | 41.2 |
| Trade and other receivables | 21 | 115.1 | 184.2 |
| Bills receivable | | 67.4 | 109.4 |
| Investments in securities | 17 | 1.8 | 4.6 |
| Amounts due from associates | | 9.0 | 6.7 |
| Taxation recoverable | | 3.6 | 5.4 |
| Bank balances and cash | | 139.4 | 207.6 |
| | | 481.5 | 690.2 |
| Current liabilities | | | |
| Trade and other payables | 22 | 222.7 | 233.8 |
| Bills payable | | 13.7 | 12.0 |
| Amount due to an associate | | – | 0.1 |
| Taxation payable | | 0.4 | 1.1 |
| Unsecured short-term bank borrowings | 23 | 3.3 | 46.9 |
| Bank loans – amount due within one year | 24 | 58.8 | 52.3 |
| | | 298.9 | 346.2 |
| Net current assets | | | |
| | | 182.6 | 344.0 |
| | | 2,243.9 | 2,365.3 |

: Consolidated Balance Sheet (cont'd)

At 31 December 2004

| | NOTES | 2004 HK\$'M | 2003 HK\$'M |
|---|-------|----------------|----------------|
| Capital and reserves | | | |
| Share capital | 25 | 263.1 | 258.8 |
| Reserves | 27 | 1,101.8 | 999.7 |
| | | 1,364.9 | 1,258.5 |
| Shareholders' funds | | | |
| | | 61.8 | 57.1 |
| Minority interests | | | |
| Non-current liabilities | | | |
| Bank loans – amount due after one year | 24 | 700.4 | 688.5 |
| Other long-term loans | 28 | 90.9 | 53.6 |
| Deferred taxation | 29 | 25.9 | 18.7 |
| Consideration payable for the acquisition of properties | | – | 288.9 |
| | | 817.2 | 1,049.7 |
| | | 2,243.9 | 2,365.3 |

The financial statements on pages 39 to 93 were approved and authorised for issue by the Board of Directors on 19 April 2005 and are signed on its behalf by:

Cheng Wai Sun, Edward
Director

Ng Tak Wai, Frederick
Director

: Balance Sheet

At 31 December 2004

| | NOTES | 2004 HK\$'M | 2003 HK\$'M |
|-----------------------------------|-------|----------------|----------------|
| Non-current assets | | | |
| Interest in subsidiaries | 15 | 1,194.0 | 1,199.3 |
| Current assets | | | |
| Other receivables and prepayments | | 0.7 | 0.3 |
| Bank balances and cash | | 10.1 | 3.6 |
| | | 10.8 | 3.9 |
| Current liabilities | | | |
| Other payables | | 1.1 | 1.1 |
| Net current assets | | | |
| | | 9.7 | 2.8 |
| Net assets | | | |
| | | 1,203.7 | 1,202.1 |
| Capital and reserves | | | |
| Share capital | 25 | 263.1 | 258.8 |
| Reserves | 27 | 940.6 | 943.3 |
| Shareholders' funds | | | |
| | | 1,203.7 | 1,202.1 |

Cheng Wai Sun, Edward
Director

Ng Tak Wai, Frederick
Director

: Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

| | Total equity HK\$'M |
|--|--------------------------------|
| At 1 January 2003 | 1,258.6 |
| Deficit arising on revaluation of investment properties | (19.1) |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | 4.9 |
| Share of reserves of associates | 1.1 |
| Net losses not recognised in the consolidated income statement | (13.1) |
| | 1,245.5 |
| Deferred tax liabilities arising on change in tax rate in respect of other property revaluation reserve | (0.3) |
| 2002 final dividend paid | (5.2) |
| Net profit for the year | 18.5 |
| At 31 December 2003 and 1 January 2004 | 1,258.5 |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | 8.5 |
| Share of reserves of associates | (0.1) |
| Net gains not recognised in the consolidated income statement | 8.4 |
| | 1,266.9 |
| Translation reserve realised on disposal of an associate | 3.0 |
| Issue of shares | 6.9 |
| 2003 final dividend paid | (5.2) |
| Net profit for the year | 93.3 |
| At 31 December 2004 | 1,364.9 |

: Consolidated Cash Flow Statement

For the year ended 31 December 2004

| | 2004 HK\$'M | 2003 HK\$'M |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Profit from operations | 58.9 | 49.3 |
| Adjustments for: | | |
| Gain arising from change in fair value of investment properties | (39.9) | – |
| Reversal of impairment losses in respect of investments the underlying business of which is property development | (7.5) | (11.6) |
| Interest and investment income | (14.3) | (11.5) |
| Amortisation of permanent textile quota entitlements | 0.4 | 1.1 |
| Amortisation of trademark | 0.1 | 0.1 |
| Depreciation and amortisation of other properties, plant and equipment | 24.5 | 20.9 |
| Loss on disposal of other properties, plant and equipment | 0.1 | 0.3 |
| Operating cash flows before movements in working capital | 22.3 | 48.6 |
| Decrease in inventories | 0.9 | 5.3 |
| Decrease in properties held for sale | 29.9 | 131.8 |
| Decrease (increase) in trade and other receivables | 76.3 | (23.0) |
| Decrease (increase) in bills receivable | 42.0 | (39.6) |
| (Increase) decrease in amounts due from associates | (2.3) | 23.7 |
| Decrease in trade and other payables | (16.0) | (44.0) |
| Increase (decrease) in bills payable | 1.7 | (8.1) |
| Decrease in amount due to an associate | (0.1) | – |
| Net cash generated from operations | 154.7 | 94.7 |
| Interest and dividend income received | 5.5 | 3.6 |
| Interest paid on bank and other borrowings | (19.6) | (21.1) |
| Hong Kong Profits Tax paid | (0.8) | (8.9) |
| Tax paid in other jurisdictions | (0.9) | – |
| Net cash from operating activities | 138.9 | 68.3 |

: Consolidated Cash Flow Statement (cont'd)

For the year ended 31 December 2004

| | 2004 HK\$'M | 2003 HK\$'M |
|---|----------------|----------------|
| Cash flows from investing activities | | |
| Purchase of properties under development | (288.9) | (15.0) |
| Purchase of other properties, plant and equipment | (35.7) | (72.7) |
| Development costs on properties under development incurred | (20.5) | – |
| Purchase of investment securities | (15.6) | (13.2) |
| Repayment from (advances to) associates | 116.9 | (27.4) |
| Decrease in investments the underlying business of which is property development | 20.6 | 92.5 |
| Proceeds from redemption of debt securities | 4.7 | – |
| Other interest received | 1.1 | 0.5 |
| Proceeds from disposal of other property, plant and equipment | 0.7 | 0.2 |
| Decrease in mortgage loans receivable | 0.7 | – |
| Investments in associates | – | (3.8) |
| Proceeds from disposal of properties | – | 10.4 |
| Net cash used in investing activities | (216.0) | (28.5) |
| Cash flows from financing activities | | |
| Bank and other loans raised | 347.5 | 266.3 |
| Issue of shares | 6.9 | – |
| Repayment of bank and other loans | (335.4) | (184.6) |
| (Decrease) increase in trust receipts and import loans | (5.9) | 8.4 |
| Dividend paid by the Company | (5.2) | (5.2) |
| Dividend paid to minority shareholders of subsidiaries | (1.1) | (2.2) |
| Net cash from financing activities | 6.8 | 82.7 |
| (Decrease) increase in cash and cash equivalents | (70.3) | 122.5 |
| Cash and cash equivalents at beginning of the year | 207.4 | 83.2 |
| Effect of foreign exchange rate changes | 1.8 | 1.7 |
| Cash and cash equivalents at end of the year | 138.9 | 207.4 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 139.4 | 207.6 |
| Bank overdrafts | (0.5) | (0.2) |
| | 138.9 | 207.4 |

: Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

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

The Group is engaged in garment manufacturing and trading, branded products distribution, property rental and management, property development and other investing activities.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has early adopted HKAS 40 "Investment Property" ("HKAS 40") in the consolidated financial statements retroactively from 1 January 2004 in accounting for its investment properties.

In prior years, investment properties were stated at open market value based on annual professional valuation at the balance sheet date. No depreciation was provided in respect of investment properties which were held on leases with unexpired terms, including the renewable period, of more than 20 years. Where the investment properties were held on leases with unexpired terms of 20 years or less, depreciation was provided on the then carrying amount over the remaining term of the lease. Any surplus or deficit arising on the revaluation of investment properties was credited or charged to the investment property revaluation reserve unless the balance in this reserve was insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance in the investment property revaluation reserve was charged to the income statement. Where a deficit had previously been charged to the income statement and a revaluation surplus subsequently arose, this surplus was credited to the income statement to the extent of the deficit previously charged.

Pursuant to the fair value model of HKAS 40, which the Group has elected to apply, fair value changes in investment properties are to be recognised in the income statement in the period in which they arise. Accordingly, the Group has adopted a new accounting policy for investment properties as set out in note 3 under "Investment properties". As a result of the adoption of this accounting policy, the Group's net profit for the year has included HK\$36.8 million and HK\$34.2 million, representing gain on increase in fair value of investment properties attributable to the Group and its associates respectively.

The effect of adopting the new accounting policy was adjusted to the opening balance of investment property revaluation reserve and other distributable reserve (deficit) as at 1 January 2004 in accordance with the transitional provisions of HKAS 40. Comparative information has not been restated.

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

The Group is assessing the impact of the other New HKFRSs which the Group has not early adopted in the financial statements for the year ended 31 December 2004. The impact of these New HKFRSs on the results of operations and financial position, if any, will be reflected in the Group's financial statements beginning 1 January 2005.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") made up to 31 December each year.

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and associate at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight line basis over its estimated useful life generally not exceeding twenty years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

: Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and associate at the date of acquisition over the cost of acquisition. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

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

Interest in associates

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group intends to hold to maturity are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

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

Income from properties developed for sale is recognised on the execution of a binding sale agreement or when the relevant building occupation permit is issued by the building authority, whichever is later. Payments received from purchasers prior to this stage are recorded as deposits received, which are included in current liabilities.

Service revenue is recognised when the services are rendered.

Rental income, including rental invoiced in advance under operating leases, is recognised on a straight line basis over the period of the leases.

Income from disposal of permanent or temporary textile quota entitlements is recognised upon execution of a legally binding, unconditional and irrecoverable transfer form to a third party.

Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.

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

Impairment

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

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

: Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties

Investment properties, which are held to earn rental income and/or for capital appreciation, are stated at fair value at the balance sheet date. Gains or losses arising from changes in fair value of investment properties are included in net profit or loss for the period in which they arise.

External independent valuation firms, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Investment properties are valued on an open market basis using the direct comparison method assuming sale with the benefit of immediate vacant possession and by reference to comparable market transactions or, where appropriate by investment method by taking into account the rental earning capacity and possible early termination of rental agreement of the properties. The valuations are based on the assumption that the properties are sold on the open market without the benefit of deferred term contracts, leasebacks, joint venture, management agreements or any similar arrangements which could affect the values of the properties. No allowance has been made in the valuations for any charges, mortgage or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale.

Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost includes the cost of land, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to the property development.

Other properties, plant and equipment

Other properties, plant and equipment (other than freehold land and construction in progress) are stated at cost or valuation, less depreciation and amortisation and accumulated impairment losses.

The cost or valuation of freehold land is not amortised whereas the cost of land use rights and leasehold land is amortised over the period of the right, using the straight line method.

The Group has adopted the transitional relief provided in paragraph 80 of SSAP 17 "Property, plant and equipment" with regard to the requirement to make regular revaluations of land and buildings other than investment properties. On subsequent sale of these revalued assets, any attributable revaluation surplus will be transferred to other distributable reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Other properties, plant and equipment (cont'd)

Depreciation is provided to write off the cost or valuation of other items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|-----------------------------------|--|
| Leasehold land | Over the unexpired term of the relevant leases |
| Leasehold buildings | 2% – 4% |
| Furniture, fixtures and equipment | 10% – 33½% |
| Motor vehicles | 20% – 30% |
| Plant and machinery | 7½% – 35% |

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

Construction in progress is stated at cost. Cost includes all development expenditure and other direct costs attributable to such projects. It is not depreciated until completion of construction. Cost on completed construction works is transferred to the appropriate categories of other properties, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

Textile quota entitlements

Revenue from the sale of, and the cost of acquiring, temporary textile quota entitlements are dealt with in the income statement in the period in which they arise. Textile quota entitlements allocated by the authorities in Hong Kong are not capitalised and are not included as assets in the balance sheet. The cost of permanent textile quota entitlements acquired is amortised on a straight line basis over three years.

: Notes to the Financial Statements

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Trademark

Costs incurred in the acquisition of trademarks are capitalised and amortised on a straight line basis over their estimated useful lives of ten years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method and comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

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

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

In preparing the consolidated financial statements, the results of operations outside Hong Kong are translated using the average exchange rates for the year. The assets and liabilities of the operations outside Hong Kong are translated using the rates ruling on the balance sheet date. On consolidation, any differences arising on translation of operations outside Hong Kong are dealt with in the translation reserve.

Operating leases

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

Retirement benefits cost

Payments to the Group's defined contribution retirement benefit schemes, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

For the Group's defined benefit retirement benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuation being carried out at each balance sheet date. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets.

: Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER

Turnover represents the net amounts received and receivable from third parties in connection with the following activities:

| | 2004 HK\$'M | 2003 HK\$'M |
|---|----------------|----------------|
| Sales of goods | 1,321.6 | 1,232.0 |
| Property development | 61.5 | 167.9 |
| Rental and property management income | 58.4 | 59.2 |
| Income from investing activities (Note) | 14.3 | 11.5 |
| | 1,455.8 | 1,470.6 |

Note:

Income from investing activities comprises:

| | 2004 HK\$'M | 2003 HK\$'M |
|---------------------------------------|----------------|----------------|
| Interest income from associates | 7.6 | 6.0 |
| Income from investments in securities | 6.7 | 5.5 |
| | 14.3 | 11.5 |

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

For management purposes, the Group is currently organised into five operating divisions – garment manufacturing and trading, branded products distribution, property rental and management, property development and investing activities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | | |
|-----------------------------------|---|---|
| Garment manufacturing and trading | – | Manufacture of garments for export to overseas markets, and source apparel, as buying and marketing agents |
| Branded products distribution | – | Retailing, wholesaling and licensing of branded apparel |
| Property rental and management | – | Property rental and management and hospitality management services |
| Property development | – | Residential development carried out by the Group |
| Investing activities | – | Investments in securities and the underlying businesses of which are property investment and development, communications and others |

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

| | Garment manufacturing and trading HK\$'M | Branded products distribution HK\$'M | Property rental and management HK\$'M | Property development HK\$'M | Investing activities HK\$'M | Elimination HK\$'M | Consolidated HK\$'M |
|----------------------------------|---|---|--|-----------------------------------|-----------------------------------|-----------------------|------------------------|
| For the year ended | | | | | | | |
| 31 December 2004 | | | | | | | |
| TURNOVER | | | | | | | |
| External sales | 1,107.6 | 214.0 | 58.4 | 61.5 | 14.3 | - | 1,455.8 |
| Inter-segment sales | - | - | 6.5 | - | - | (6.5) | - |
| Total | <u>1,107.6</u> | <u>214.0</u> | <u>64.9</u> | <u>61.5</u> | <u>14.3</u> | <u>(6.5)</u> | <u>1,455.8</u> |
| RESULT | | | | | | | |
| Segment result | 15.6 | (1.1) | 49.1 | 39.9 | 4.9 | - | 108.4 |
| Unallocated corporate expenses | | | | | | | (49.5) |
| Profit from operations | | | | | | | 58.9 |
| Other interest income | | | | | | | 1.1 |
| Finance costs | | | | | | | (18.0) |
| Share of results of associates | | | | | | | 59.4 |
| Gain on disposal of an associate | | | | | | | 7.6 |
| Profit before taxation | | | | | | | 109.0 |
| Taxation | | | | | | | (10.0) |
| Profit before minority interests | | | | | | | 99.0 |
| Minority interests | | | | | | | (5.7) |
| Net profit for the year | | | | | | | <u>93.3</u> |

Inter-segment sales are charged at prevailing market rates.

: Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

| | Garment manufacturing and trading HK\$'M | Branded products distribution HK\$'M | Property rental and management HK\$'M | Property development HK\$'M | Investing activities HK\$'M | Elimination HK\$'M | Consolidated HK\$'M |
|----------------------------------|---|---|--|-----------------------------------|-----------------------------------|-----------------------|------------------------|
| For the year ended | | | | | | | |
| 31 December 2003 | | | | | | | |
| TURNOVER | | | | | | | |
| External sales | 1,061.2 | 170.8 | 59.2 | 167.9 | 11.5 | – | 1,470.6 |
| Inter-segment sales | – | – | 7.6 | – | – | (7.6) | – |
| Total | <u>1,061.2</u> | <u>170.8</u> | <u>66.8</u> | <u>167.9</u> | <u>11.5</u> | <u>(7.6)</u> | <u>1,470.6</u> |
| RESULT | | | | | | | |
| Segment result | 40.5 | (10.8) | 11.7 | 25.0 | 14.5 | – | 80.9 |
| Unallocated corporate expenses | | | | | | | <u>(31.6)</u> |
| Profit from operations | | | | | | | 49.3 |
| Other interest income | | | | | | | 0.5 |
| Finance costs | | | | | | | (21.8) |
| Share of results of associates | | | | | | | <u>1.1</u> |
| Profit before taxation | | | | | | | 29.1 |
| Taxation | | | | | | | <u>(6.3)</u> |
| Profit before minority interests | | | | | | | 22.8 |
| Minority interests | | | | | | | <u>(4.3)</u> |
| Net profit for the year | | | | | | | <u>18.5</u> |

Inter-segment sales are charged at prevailing market rates.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

| | Garment manufacturing and trading HK\$'M | Branded products distribution HK\$'M | Property rental and management HK\$'M | Property development HK\$'M | Investing activities HK\$'M | Consolidated HK\$'M |
|---|---|---|--|-----------------------------------|-----------------------------------|------------------------|
| At 31 December 2004 | | | | | | |
| ASSETS | | | | | | |
| Segment assets | 362.4 | 131.3 | 988.3 | 13.5 | 439.6 | 1,935.1 |
| Interest in associates | | | | | | 428.1 |
| Unallocated corporate assets | | | | | | 179.6 |
| Consolidated total assets | | | | | | <u>2,542.8</u> |
| LIABILITIES | | | | | | |
| Segment liabilities | 146.3 | 56.5 | 25.1 | 1.3 | 7.2 | 236.4 |
| Unallocated corporate liabilities | | | | | | 879.7 |
| Consolidated total liabilities | | | | | | <u>1,116.1</u> |
| OTHER INFORMATION | | | | | | |
| Capital additions | 29.3 | 0.3 | 27.4 | – | 2.0 | 59.0 |
| Depreciation and amortisation | | | | | | |
| – Business segment | 11.8 | 7.6 | 4.0 | – | 1.2 | 24.6 |
| – Unallocated corporate items | | | | | | 0.4 |
| Reversal of impairment losses recognised in respect of investments | – | – | – | – | 7.5 | 7.5 |
| Loss on disposal of other properties, plant and equipment | 0.1 | – | – | – | – | 0.1 |

: Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

| | Garment manufacturing and trading HK\$'M | Branded products distribution HK\$'M | Property rental and management HK\$'M | Property development HK\$'M | Investing activities HK\$'M | Consolidated HK\$'M |
|---|---|---|--|-----------------------------------|-----------------------------------|------------------------|
| At 31 December 2003 | | | | | | |
| ASSETS | | | | | | |
| Segment assets | 356.8 | 143.9 | 952.7 | 93.4 | 428.8 | 1,975.6 |
| Interest in associates | | | | | | 478.2 |
| Unallocated corporate assets | | | | | | 257.7 |
| Consolidated total assets | | | | | | 2,711.5 |
| LIABILITIES | | | | | | |
| Segment liabilities | 144.6 | 53.9 | 306.2 | 23.0 | 7.1 | 534.8 |
| Unallocated corporate liabilities | | | | | | 861.1 |
| Consolidated total liabilities | | | | | | 1,395.9 |
| OTHER INFORMATION | | | | | | |
| Capital additions | | | | | | |
| – Business segment | 23.7 | 5.0 | 308.8 | – | 1.0 | 338.5 |
| – Unallocated corporate items | | | | | | 38.1 |
| Depreciation and amortisation | | | | | | |
| – Business segment | 11.5 | 6.4 | 2.9 | – | 0.9 | 21.7 |
| – Unallocated corporate items | | | | | | 0.4 |
| Reversal of impairment losses recognised in respect of investments | – | – | – | – | 11.6 | 11.6 |
| (Gain) loss on disposal of other properties, plant and equipment | (0.1) | 0.4 | – | – | – | 0.3 |

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Geographical segment

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

| For the year ended 31 December | Turnover by geographical market | |
|--------------------------------|---------------------------------|----------------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| North America | 853.0 | 781.8 |
| United Kingdom | 262.0 | 253.5 |
| Other European countries | 119.7 | 114.0 |
| Hong Kong | 138.5 | 257.8 |
| Other areas | 82.6 | 63.5 |
| | 1,455.8 | 1,470.6 |

The Group's operations are principally located in Hong Kong, the People's Republic of China other than Hong Kong (the "PRC"), the United Kingdom and Netherlands.

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

| | Carrying amount of consolidated total assets | | Additions to property, plant and equipment | |
|--------------------|--|----------------|--|--------------|
| | At 31 December | | For the year ended 31 December | |
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'M | HK\$'M | HK\$'M | HK\$'M |
| Hong Kong | 2,176.6 | 2,361.7 | 39.4 | 363.6 |
| PRC | 85.3 | 69.7 | 18.8 | 6.3 |
| United Kingdom | 184.4 | 198.4 | 0.3 | 5.0 |
| The Netherlands | 16.1 | 16.0 | 0.1 | 1.4 |
| Others | 76.8 | 60.3 | 0.4 | 0.3 |
| | 2,539.2 | 2,706.1 | 59.0 | 376.6 |
| Unallocated assets | 3.6 | 5.4 | – | – |
| | 2,542.8 | 2,711.5 | 59.0 | 376.6 |

: Notes to the Financial Statements

For the year ended 31 December 2004

6. PROFIT FROM OPERATIONS

| | 2004 HK\$'M | 2003 HK\$'M |
|--|----------------|----------------|
| Profit from operations has been arrived at after charging: | | |
| Staff costs including directors' remuneration | 225.2 | 191.6 |
| Retirement benefits costs, net of negligible forfeited contributions | 4.6 | 4.6 |
| Total staff costs | 229.8 | 196.2 |
| Auditors' remuneration | 2.5 | 2.1 |
| Amortisation of | | |
| – permanent textile quota entitlements (included in cost of sales) | 0.4 | 1.1 |
| – trademark (included in administrative expenses) | 0.1 | 0.1 |
| Cost of temporary textile quota entitlements written off on purchase | 10.6 | 19.2 |
| Depreciation and amortisation of other properties, plant and equipment | 24.5 | 20.9 |
| Loss on disposal of other properties, plant and equipment | 0.1 | 0.3 |
| and after crediting: | | |
| Quota income | 24.5 | 14.9 |
| Dividend income from investment securities – listed | 5.2 | 4.9 |
| Dividend income from other investments – unlisted | 1.2 | 0.1 |

7. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' remuneration

| | 2004 HK\$'M | 2003 HK\$'M |
|-------------------------------|----------------|----------------|
| Directors' fees | 0.6 | 0.5 |
| Other directors' emoluments | | |
| – Salaries and other benefits | 8.4 | 5.5 |
| – Bonus | 2.1 | 1.7 |
| – Retirement benefits costs | 0.5 | 0.4 |
| | 11.6 | 8.1 |

7. DIRECTORS' AND EMPLOYEES' REMUNERATION (cont'd)

Directors' remuneration (cont'd)

The emoluments of the directors were within the following bands:

| | 2004 | 2003 |
|--------------------------------|------------------|-----------|
| | Number of | Number of |
| | directors | directors |
| Up to HK\$1,000,000 | 8 | 8 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | – |
| HK\$2,500,001 to HK\$3,000,000 | 2 | – |
| HK\$3,000,001 to HK\$3,500,000 | – | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 1 | 1 |

Total directors' fees paid to the Company's independent non-executive directors and other non-executive directors amounted to approximately HK\$0.4 million (2003: HK\$0.3 million) and HK\$0.1 million (2003: HK\$0.1 million) respectively. No other remuneration was paid to the independent non-executive directors.

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

Employees' emoluments

The aggregate emoluments of the five highest paid individuals of the Group in 2004 included three (2003: two) executive directors of the Company whose emoluments are included above. The aggregate emoluments of the remaining two (2003: three) highest paid individuals are as follows:

| | 2004 | 2003 |
|-----------------------------|---------------|--------|
| | HK\$'M | HK\$'M |
| Salaries and other benefits | 2.0 | 3.8 |
| Bonus | 1.0 | 1.1 |
| Retirement benefits costs | 0.1 | 0.1 |
| | 3.1 | 5.0 |

: Notes to the Financial Statements

For the year ended 31 December 2004

7. DIRECTORS' AND EMPLOYEES' REMUNERATION (cont'd)

Employees' emoluments (cont'd)

Their emoluments were within the following bands:

| | 2004 Number of employees | 2003 Number of employees |
|--------------------------------|--------------------------------|--------------------------------|
| HK\$1,000,001 to HK\$1,500,000 | – | 2 |
| HK\$1,500,001 to HK\$2,000,000 | 2 | – |
| HK\$2,000,001 to HK\$2,500,000 | – | 1 |

8. FINANCE COSTS

| | 2004 HK\$'M | 2003 HK\$'M |
|--|----------------|----------------|
| Interest on: | | |
| – bank and other borrowings wholly repayable within five years | 17.6 | 18.3 |
| – bank and other borrowings not wholly repayable within five years | 3.2 | 3.5 |
| Total borrowing costs | 20.8 | 21.8 |
| Less: Interest capitalised in properties under development | (2.8) | – |
| | 18.0 | 21.8 |

9. TAXATION

| | 2004 HK\$'M | 2003 HK\$'M |
|--|--------------------|----------------|
| The charge comprises: | | |
| Taxation of the Company and its subsidiaries | | |
| – Hong Kong Profits Tax | 3.1 | 4.6 |
| – Taxation in other jurisdictions | 0.6 | 0.6 |
| | <u>3.7</u> | <u>5.2</u> |
| Overprovision in prior years | | |
| – Hong Kong Profits Tax | (0.9) | – |
| – Taxation in other jurisdictions | – | (1.0) |
| | <u>(0.9)</u> | <u>(1.0)</u> |
| | 2.8 | 4.2 |
| Deferred taxation (note 29) | 7.2 | 2.1 |
| | <u>10.0</u> | <u>6.3</u> |

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation arising on other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

: Notes to the Financial Statements

For the year ended 31 December 2004

9. TAXATION (cont'd)

A statement of reconciliation of taxation is as follows:

| | 2004 HK\$'M | 2003 HK\$'M |
|--|----------------|----------------|
| Profit before taxation | 109.0 | 29.1 |
| Tax at Hong Kong Profits Tax rate of 17.5% (2003: 17.5%) | 19.1 | 5.1 |
| Tax effect of expenses not deductible in determining taxable profit | 6.5 | 3.4 |
| Tax effect of income not taxable in determining taxable profit | (11.9) | (4.3) |
| Tax effect of tax losses not recognised | 14.0 | 15.9 |
| Tax effect of utilisation of tax losses not previously recognised | (6.6) | (2.9) |
| Tax effect of unrecognised deductible temporary differences | (4.1) | (8.3) |
| Effect of different tax rates of subsidiaries operating on other jurisdictions | (0.8) | (2.9) |
| Overprovision in prior years | (0.9) | (1.0) |
| Tax effect of share of results of associates | (10.4) | (0.2) |
| Others | 5.1 | 0.3 |
| Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate | – | 1.2 |
| Taxation for the year | 10.0 | 6.3 |

Details of deferred taxation are set out in note 29.

10. DIVIDEND

| | 2004 HK\$'M | 2003 HK\$'M |
|--|----------------|----------------|
| Final proposed of HK1.75 cent (2003: HK1.0 cent) per share | 9.2 | 5.2 |

The final dividend of HK1.75 cent (2003: HK1.0 cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting of the Company.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | 2004 HK\$'M | 2003 HK\$'M |
|---|--------------------|----------------|
| Earnings for the purpose of calculating basic and diluted earnings per share | 93.3 | 18.5 |
| | 2004 | 2003 |
| Number of shares | | |
| Weighted average number of shares for the purpose of calculating basic earnings per share | 518,820,462 | 517,625,339 |
| Effect of dilutive potential shares issuable under the Company's share option scheme | 1,737,245 | 239,899 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | 520,557,707 | 517,865,238 |

12. INVESTMENT PROPERTIES

| | THE GROUP | |
|--|----------------|----------------|
| | 2004 HK\$'M | 2003 HK\$'M |
| VALUATION | | |
| At 1 January | 559.2 | 579.5 |
| Surplus (deficit) arising on revaluation | 39.9 | (20.3) |
| Transferred to properties for own use | (57.5) | – |
| At 31 December | 541.6 | 559.2 |
| Investment properties comprise: | | |
| Properties held under medium-term leases | | |
| – in Hong Kong | 541.6 | 535.3 |
| – outside Hong Kong | – | 23.9 |
| | 541.6 | 559.2 |

The Group's investment properties were valued on an open market value basis as at 31 December 2004 by Chesterton Petty Limited, a firm of independent professional property valuers.

: Notes to the Financial Statements

For the year ended 31 December 2004

12. INVESTMENT PROPERTIES (cont'd)

The valuation of the Group's investment properties has been adopted by the directors and is reflected in the financial statements. The surplus arising on the revaluation is credited to the consolidated income statement.

13. PROPERTIES UNDER DEVELOPMENT

| | THE GROUP | |
|---------------------------|-----------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| At 1 January | 303.9 | – |
| Additions during the year | 23.3 | 303.9 |
| At 31 December | 327.2 | 303.9 |

The properties under development are held in Hong Kong under medium lease terms. Included in properties under development is net interest capitalised of HK\$2.8 million (2003: nil).

14. OTHER PROPERTIES, PLANT AND EQUIPMENT

| | Properties for own use HK\$'M | Construction in progress HK\$'M | Furniture, fixtures and equipment HK\$'M | Motor vehicles HK\$'M | Plant and machinery HK\$'M | Total HK\$'M |
|---|--|--|--|-----------------------------|----------------------------------|-----------------|
| THE GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1 January 2004 | 232.9 | 7.7 | 151.6 | 8.2 | 73.6 | 474.0 |
| Currency realignment | 5.8 | – | 6.0 | – | – | 11.8 |
| Transferred from investment properties | 57.5 | – | – | – | – | 57.5 |
| Additions | – | 14.9 | 14.1 | 1.2 | 5.5 | 35.7 |
| Disposals | – | – | (2.1) | (1.4) | (1.6) | (5.1) |
| At 31 December 2004 | 296.2 | 22.6 | 169.6 | 8.0 | 77.5 | 573.9 |
| Comprising: | | | | | | |
| At cost | 210.8 | 22.6 | 169.6 | 8.0 | 77.5 | 488.5 |
| At valuation – 1994 (Note) | 85.4 | – | – | – | – | 85.4 |
| | 296.2 | 22.6 | 169.6 | 8.0 | 77.5 | 573.9 |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 1 January 2004 | 32.0 | – | 115.9 | 6.1 | 61.6 | 215.6 |
| Currency realignment | 1.0 | – | 4.6 | – | – | 5.6 |
| Provided for the year | 5.8 | – | 12.0 | 1.4 | 5.3 | 24.5 |
| Eliminated on disposals | – | – | (1.8) | (1.4) | (1.1) | (4.3) |
| At 31 December 2004 | 38.8 | – | 130.7 | 6.1 | 65.8 | 241.4 |
| NET BOOK VALUES | | | | | | |
| At 31 December 2004 | 257.4 | 22.6 | 38.9 | 1.9 | 11.7 | 332.5 |
| At 31 December 2003 | 200.9 | 7.7 | 35.7 | 2.1 | 12.0 | 258.4 |

: Notes to the Financial Statements

For the year ended 31 December 2004

14. OTHER PROPERTIES, PLANT AND EQUIPMENT (cont'd)

| | THE GROUP | |
|---|------------------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| The net book value of the Group's properties for own use comprises: | | |
| Freehold properties outside Hong Kong | 65.8 | 61.3 |
| Properties held under long leases in Hong Kong | 37.5 | 37.9 |
| Properties held under medium-term leases | | |
| – in Hong Kong | 106.5 | 74.9 |
| – outside Hong Kong | 44.9 | 22.5 |
| Properties held under short-term leases outside Hong Kong | 2.7 | 4.3 |
| | 257.4 | 200.9 |

Note: Had these property interests not been revalued, their net book values on the historical cost basis at 31 December 2004 would have been approximately HK\$20.7 million (2003: HK\$21.3 million).

15. INTEREST IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|--------------------|---------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Unlisted shares, at cost | 590.8 | 590.8 |
| Amounts due from subsidiaries | 603.2 | 608.5 |
| | 1,194.0 | 1,199.3 |

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 38.

16. INTEREST IN ASSOCIATES

| | THE GROUP | |
|--|------------------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Share of net assets (liabilities) | 9.2 | (68.7) |
| Advances to associates (note b) | 418.9 | 548.7 |
| Impairment losses recognised in respect of associates engaged in property development | – | (1.8) |
| | 428.1 | 478.2 |

Details of the Group's principal associates at 31 December 2004 are set out in note 39.

Notes:

- (a) The share of post acquisition reserves (2003: deficits) of associates included an amount of HK\$1.8 million (2003: HK\$2.5 million) which was provided for in 2000 as impairment losses recognised in respect of associates engaged in property development.
- (b) The advances are unsecured. Other than an aggregate amount of HK\$316.3 million (2003: HK\$311.3 million) which carries interest at market rates, the remaining balance is interest free. There are no fixed repayment terms.

The summary of financial information of a significant associate of the Group for the year ended 31 December 2004 is as follows:

| | 2004 | 2003 |
|--------------------------|------------------|-----------|
| | HK\$'M | HK\$'M |
| Results for the year: | | |
| Turnover | 231.5 | 765.6 |
| Net profit for the year | 752.0 | 105.8 |
| Financial position: | | |
| Non-current assets | 1,978.8 | 1,603.2 |
| Current assets | 574.9 | 882.2 |
| Current liabilities | (128.9) | (1,124.6) |
| Non-current liabilities | (2,296.8) | (1,984.8) |
| Net assets (liabilities) | 128.0 | (624.0) |

: Notes to the Financial Statements

For the year ended 31 December 2004

17. INVESTMENTS IN SECURITIES

| | THE GROUP | |
|-----------------------------------|------------------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Investment securities | | |
| – listed shares, at cost (note a) | 381.1 | 354.8 |
| Listed debt securities (note b) | 1.8 | 6.3 |
| Other investments (note c) | 49.2 | 62.3 |
| | 432.1 | 423.4 |
| Analysed as: | | |
| Current | 1.8 | 4.6 |
| Non-current | 430.3 | 418.8 |
| | 432.1 | 423.4 |

Notes:

- (a) The listed shares comprise principally the Group's minority stakes in Winsor Properties Holdings Limited ("Winsor"), SUNDAY Communications Limited ("SUNDAY") and UBC Media Group Plc ("UBC").

Winsor is engaged in property investment and its shares are listed on the Stock Exchange. SUNDAY is engaged in the provision of telecommunications and mobile phone services and its shares are listed on the NASDAQ National Market in the United States of America and on the Stock Exchange. UBC is engaged in programme production and radio broadcasting and its shares are listed on the Alternative Investment Market of London Stock Exchange Plc.

The market value of the listed shares as at 31 December 2004 amounted to HK\$429.2 million (2003: HK\$225.3 million).

- (b) The debt securities comprise bonds listed overseas and are intended to be held-to-maturity by the Group. The bonds at 31 December 2004 include an amount of HK\$1.8 million (2003: HK\$4.6 million) which is due to mature in the following year and is therefore classified as current assets in the balance sheet. The market value of the listed bonds at 31 December 2004 amounted to HK\$1.8 million (2003: HK\$6.6 million).
- (c) Other investments comprise principally the Group's minority stakes in various property development projects. During the year, the directors conducted a review of the carrying amounts of investments the underlying business of which is property development and determined that a reversal of impairment losses of HK\$7.5 million (2003: 11.6 million) was made in the financial statements by reference to the recoverable amounts from these property development projects.

17. INVESTMENTS IN SECURITIES (cont'd)

In the opinion of the directors, the investment securities are held for identified long-term strategic purpose and their carrying amounts are fully recoverable, and the carrying values of the other investments represent their fair value at the balance sheet date.

18. OTHER NON-CURRENT ASSETS

| | Balance at 1.1.2004 HK\$'M | Decrease/ amortisation for the year HK\$'M | Balance at 31.12.2004 HK\$'M |
|-------------------------------------|----------------------------------|---|------------------------------------|
| THE GROUP | | | |
| Mortgage loans receivable (note a) | 1.9 | (0.7) | 1.2 |
| Trademark (note b) | 0.5 | (0.1) | 0.4 |
| Textile quota entitlements (note c) | 0.4 | (0.4) | – |
| | <u>2.8</u> | <u>(1.2)</u> | <u>1.6</u> |

Notes:

- (a) The mortgage loans receivable are second mortgage financing provided to the purchasers of developed properties of the Group. The loans bear interest at market rates and are secured by second mortgage over the relevant properties. The amounts are receivable twenty-five months after the date of advance of the respective loans by monthly instalments within twenty years.
- (b) The trademark is related to the Group's hospitality operations and is amortised over an estimated useful life of ten years.
- (c) Textile quota entitlements are acquired for the Group's apparel operations and are amortised over three years.

19. INVENTORIES

| | THE GROUP | |
|-------------------------|---------------------|--------------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Raw materials | 31.8 | 35.5 |
| Work in progress | 65.4 | 52.2 |
| Finished goods | 36.7 | 43.4 |
| | <u>133.9</u> | <u>131.1</u> |
| Comprising: | | |
| At cost | 133.6 | 130.6 |
| At net realisable value | 0.3 | 0.5 |
| | <u>133.9</u> | <u>131.1</u> |

: Notes to the Financial Statements

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20. PROPERTIES HELD FOR SALE

The Group

The properties held for sale are situated in Hong Kong and are held under medium-term leases. All the properties held for sale are stated at cost (2003: net realisable value) at the balance sheet date.

21. TRADE AND OTHER RECEIVABLES

The Group allows varying credit periods to its trade customers. Credit periods for customers vary from 30 to 90 days in accordance with the industry practice.

The following is an aged analysis of the Group's trade receivables at 31 December:

| | THE GROUP | |
|-------------------|-----------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| 0 – 30 days | 28.6 | 45.6 |
| 31 – 90 days | 21.4 | 65.7 |
| Over 90 days | 26.3 | 33.9 |
| | 76.3 | 145.2 |
| Other receivables | 38.8 | 39.0 |
| Total | 115.1 | 184.2 |

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at 31 December:

| | THE GROUP | |
|----------------|-----------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| 0 – 30 days | 44.6 | 61.0 |
| 31 – 90 days | 14.5 | 22.3 |
| Over 90 days | 12.5 | 9.8 |
| | 71.6 | 93.1 |
| Other payables | 151.1 | 140.7 |
| Total | 222.7 | 233.8 |

23. UNSECURED SHORT-TERM BANK BORROWINGS

| | THE GROUP | |
|---------------------------------|------------------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Trust receipts and import loans | 2.8 | 8.7 |
| Bank overdrafts | 0.5 | 0.2 |
| Short-term bank loans | – | 38.0 |
| | 3.3 | 46.9 |

24. BANK LOANS

The bank loans carry interest at the prevailing market rates and are repayable as follows:

| | THE GROUP | |
|--|------------------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Within one year | 58.8 | 52.3 |
| Between one to two years | 90.9 | 154.9 |
| Between two to five years | 368.2 | 516.2 |
| After five years | 241.3 | 17.4 |
| | 759.2 | 740.8 |
| Less: Amount due within one year shown under current liabilities | (58.8) | (52.3) |
| Amount due after one year | 700.4 | 688.5 |
| Analysed as | | |
| – secured | 457.7 | 445.1 |
| – unsecured | 301.5 | 295.7 |
| | 759.2 | 740.8 |

Included in the balance at 31 December 2003 was an amount of HK\$189.0 million which was classified as amount due after one year based on a loan facility concluded on 3 March 2004.

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For the year ended 31 December 2004

25. SHARE CAPITAL

| | Number of shares | Amount HK\$'M |
|--|---------------------|------------------|
| Ordinary shares of HK\$0.50 each | | |
| Authorised: | | |
| At 1 January 2003, 31 December 2003 and 31 December 2004 | 1,320,000,000 | 660.0 |
| Issued and fully paid: | | |
| At 1 January 2003 and 31 December 2003 | 517,625,339 | 258.8 |
| Issue of shares | 8,630,000 | 4.3 |
| At 31 December 2004 | 526,255,339 | 263.1 |

During the year, the Company allotted and issued a total of 8,630,000 ordinary shares of HK\$0.50 each for cash at the exercise price of HK\$0.80 per share as a result of the exercise of share options.

All shares issued during the year rank pari passu with the then existing share.

26. SHARE OPTION SCHEMES

Under the share option scheme of the Company adopted on 10 June 2003 ("2003 Scheme"), the directors of the Company may, at their discretion, grant options to the directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company as at 10 June 2003. The maximum number of options granted to any one individual in any 12-month period shall not exceed 1% of the issued share capital of the Company. The purpose of the 2003 Scheme is to enable the Company to grant options to selected participants as incentives for their contributions to the Group. A consideration of HK\$1 is payable on acceptance of the grant of options. Options granted must be taken up within 28 days from the date of grant. The exercise price for an option to subscribe for a share is determined by the directors of the Company, and shall be at least the highest of: i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and iii) the nominal value of a share of the Company. The 2003 Scheme will end on 9 June 2013.

No options were granted during the year ended 31 December 2004 under the 2003 Scheme.

26. SHARE OPTION SCHEMES (cont'd)

Prior to the 2003 Scheme, the Company had an old share option scheme (the "Old Share Option Scheme") which came into operation on 18 November 1991 and expired on 17 November 2001. Under the Old Share Option Scheme, the directors of the Company may, at their discretion, grant options to executive directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company up to a maximum of 10% of the issued share capital of the Company as at the date of adoption of the Old Share Option Scheme.

The movements of the share options granted under the Old Share Option Scheme during the year are as follows:

| | Date of grant | Exercise price | Number of share options | | | | | |
|-----------|------------------|----------------|-------------------------|--|--|---------------------------|--|---------------------------|
| | | | Outstanding at 1.1.2003 | Cancelled upon termination of employment during the year | Outstanding at 31.12.2003 and 1.1.2004 | Exercised during the year | Cancelled upon termination of employment during the year | Outstanding at 31.12.2004 |
| Directors | 15 November 1999 | HK\$0.8 | 5,460,000 | - | 5,460,000 | (5,460,000) | - | - |
| Employees | 15 November 1999 | HK\$0.8 | 4,165,000 | (80,000) | 4,085,000 | (3,170,000) | (915,000) | - |
| | | | <u>9,625,000</u> | <u>(80,000)</u> | <u>9,545,000</u> | <u>(8,630,000)</u> | <u>(915,000)</u> | <u>-</u> |

No charge is recognised in the income statement of the Company in respect of options granted under the above option schemes. Share options granted under the above option schemes are not recognised in the financial statements of the Company until such options are exercised. Upon exercise of options, the shares issued were recorded as the Company's additional share capital at nominal value of such shares and the excess of the exercise price over the nominal value of the shares issued were recorded in the Company's share premium account.

The market price of the Company's shares at the date of exercise of share options during the year was at the range of HK\$0.96 to HK\$1.53 per share.

The weighted average closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$1.13 per share.

: Notes to the Financial Statements

For the year ended 31 December 2004

27. RESERVES

| | Share premium HK\$'M | Investment property revaluation reserve HK\$'M | Other property revaluation reserve HK\$'M | Translation reserve HK\$'M | Contributed surplus HK\$'M | Other distributable reserve (deficit) HK\$'M | Total HK\$'M |
|--|----------------------------|--|---|----------------------------------|----------------------------------|--|-----------------|
| THE GROUP | | | | | | | |
| At 1 January 2003 | 438.4 | 21.0 | 18.4 | (24.9) | 637.0 | (90.1) | 999.8 |
| Deficit arising on revaluation | – | (20.3) | – | – | – | – | (20.3) |
| Share of reserves of associates | – | 2.8 | – | (1.7) | – | – | 1.1 |
| Share of reserves | | | | | | | |
| by minority shareholders | – | 1.2 | – | – | – | – | 1.2 |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | – | – | – | 4.9 | – | – | 4.9 |
| Deferred tax liabilities arising on change in tax rate | – | – | (0.3) | – | – | – | (0.3) |
| 2002 final dividend paid | – | – | – | – | (5.2) | – | (5.2) |
| Net profit for the year | – | – | – | – | – | 18.5 | 18.5 |
| At 31 December 2003 | <u>438.4</u> | <u>4.7</u> | <u>18.1</u> | <u>(21.7)</u> | <u>631.8</u> | <u>(71.6)</u> | <u>999.7</u> |
| At 1 January 2004 | | | | | | | |
| – as originally stated | 438.4 | 4.7 | 18.1 | (21.7) | 631.8 | (71.6) | 999.7 |
| – adjustment on adoption of HKAS 40 | – | (4.7) | – | – | – | 4.7 | – |
| – as restated | 438.4 | – | 18.1 | (21.7) | 631.8 | (66.9) | 999.7 |
| Issue of shares | 2.6 | – | – | – | – | – | 2.6 |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | – | – | – | 8.6 | – | – | 8.6 |
| Realised on disposal of an associate | – | – | – | 3.0 | – | – | 3.0 |
| Share of reserves of associates | – | – | – | (0.1) | – | – | (0.1) |
| Share of reserves | | | | | | | |
| by minority shareholders | – | – | – | (0.1) | – | – | (0.1) |
| 2003 final dividend paid | – | – | – | – | (5.2) | – | (5.2) |
| Net profit for the year | – | – | – | – | – | 93.3 | 93.3 |
| At 31 December 2004 | <u>441.0</u> | <u>–</u> | <u>18.1</u> | <u>(10.3)</u> | <u>626.6</u> | <u>26.4</u> | <u>1,101.8</u> |
| Attributable to associates: | | | | | | | |
| At 31 December 2004 | <u>–</u> | <u>–</u> | <u>–</u> | <u>0.3</u> | <u>–</u> | <u>6.9</u> | <u>7.2</u> |
| At 31 December 2003 | <u>–</u> | <u>2.8</u> | <u>–</u> | <u>(2.6)</u> | <u>–</u> | <u>(72.7)</u> | <u>(72.5)</u> |

27. RESERVES (cont'd)

| | Share premium HK\$'M | Contributed surplus HK\$'M | Other distributable reserve (deficit) HK\$'M | Total HK\$'M |
|--|----------------------------|----------------------------------|--|-----------------|
| THE COMPANY | | | | |
| At 1 January 2003 | 438.4 | 622.1 | (112.6) | 947.9 |
| 2002 final dividend paid | – | (5.2) | – | (5.2) |
| Net profit for the year | – | – | 0.6 | 0.6 |
| At 31 December 2003 and 1 January 2004 | 438.4 | 616.9 | (112.0) | 943.3 |
| Issue of shares | 2.6 | – | – | 2.6 |
| 2003 final dividend paid | – | (5.2) | – | (5.2) |
| Net loss for the year | – | – | (0.1) | (0.1) |
| At 31 December 2004 | 441.0 | 611.7 | (112.1) | 940.6 |

The contributed surplus account of the Group and the Company arose as a result of the group reorganisation in 1991 and the Company's capital reduction in 1996 less distribution made.

Under The Companies Act 1981 of Bermuda (as amended), contributed surplus of a company is available for distribution to shareholders in addition to accumulated profits. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

: Notes to the Financial Statements

For the year ended 31 December 2004

28. OTHER LONG-TERM LOANS

| | THE GROUP | |
|------------------------|------------------|--------|
| | 2004 | 2003 |
| | HK\$'M | HK\$'M |
| Interest bearing loans | 73.6 | 36.3 |
| Interest free loans | 17.3 | 17.3 |
| | 90.9 | 53.6 |

The loans are from minority shareholders of subsidiaries. The interest bearing loans carry interest at market rates. All the loans are unsecured and have no fixed repayment terms. The loans above include amounts of HK\$73.6 million (2003: HK\$36.3 million) which are extended to the Group to finance property development projects. In the opinion of the directors, demand for repayment of these loans will not be made within one year of the balance sheet date. The loans are therefore shown in the balance sheet as non-current liabilities.

29. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the year:

| | Accelerated tax depreciation HK\$'M | Revaluation of properties HK\$'M | Tax losses HK\$'M | Total HK\$'M |
|--|--|---|----------------------------------|-------------------------|
| At 1 January 2003 | 16.6 | 3.5 | (3.8) | 16.3 |
| Charge to income for the year (note 9) | (0.1) | – | 1.0 | 0.9 |
| Effect of change in tax rate | | | | |
| – charge to income (note 9) | 1.5 | – | (0.3) | 1.2 |
| – charge to equity | – | 0.3 | – | 0.3 |
| At 31 December 2003 and 1 January 2004 | 18.0 | 3.8 | (3.1) | 18.7 |
| Charge (credit) to income for the year (note 9) | 7.4 | – | (0.2) | 7.2 |
| At 31 December 2004 | 25.4 | 3.8 | (3.3) | 25.9 |

29. DEFERRED TAXATION (cont'd)

| | 2004 HK\$'M | 2003 HK\$'M |
|--------------------------|----------------|----------------|
| Deferred tax liabilities | 29.2 | 21.8 |
| Deferred tax assets | (3.3) | (3.1) |
| | <u>25.9</u> | <u>18.7</u> |

At 31 December 2004, the Group has unused tax losses of approximately HK\$347.5 million (2003: HK\$312.0 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$18.9 million (2003: HK\$17.7 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$328.6 million (2003: HK\$294.3 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$12.3 million that will expire until 2009. Other losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

30. MAJOR NON-CASH TRANSACTION

During the year, the Group disposed of its interest in an associate in exchange for an investment in securities with a valuation of HK\$10.7 million.

31. OPERATING LEASE

The Group as Lessee

| | 2004 HK\$'M | 2003 HK\$'M |
|---|----------------|----------------|
| Minimum lease payments charged to the consolidated income statement during the year: | | |
| – land and buildings | 18.1 | 18.6 |
| – equipment and motor vehicles | 0.7 | 0.8 |
| | <u>18.8</u> | <u>19.4</u> |

: Notes to the Financial Statements

For the year ended 31 December 2004

31. OPERATING LEASE (cont'd)

The Group as Lessee (cont'd)

Under the leases entered into by the Group, the lease payments are fixed and predetermined. At 31 December 2004, future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

| | 2004 HK\$'M | 2003 HK\$'M |
|--|----------------|----------------|
| For land and buildings | | |
| – Within one year | 22.1 | 20.3 |
| – After one year and not later than five years | 69.5 | 66.4 |
| – Over five years | 9.7 | 23.5 |
| | <u>101.3</u> | <u>110.2</u> |
| For equipment and motor vehicles | | |
| – Within one year | 0.7 | 0.7 |
| – After one year and not later than five years | 0.5 | 1.1 |
| | <u>1.2</u> | <u>1.8</u> |
| Total | <u>102.5</u> | <u>112.0</u> |

The Company had no significant operating lease commitments at the balance sheet date.

The Group as Lessor

| | 2004 HK\$'M | 2003 HK\$'M |
|--|----------------|----------------|
| Gross rental income credited to the income statement during the year | 41.4 | 41.3 |
| Less: Outgoings | (1.6) | (1.6) |
| | <u>39.8</u> | <u>39.7</u> |

31. OPERATING LEASE (cont'd)

The Group as Lessor (cont'd)

The Group's investment properties are held for rental purposes. Rentals income is fixed and predetermined. The properties held have committed tenants for the next two to three years. At the balance sheet date, the amount of future rentals receivable by the Group is as follows:

| | 2004 HK\$'M | 2003 HK\$'M |
|--|------------------------------|----------------|
| Within one year | 24.3 | 21.9 |
| After one year and not later than five years | 11.3 | 7.6 |
| | 35.6 | 29.5 |

32. CAPITAL COMMITMENTS

| | THE GROUP 2004 HK\$'M | 2003 HK\$'M |
|--|--|----------------|
| Capital expenditure in respect of properties under development – contracted for but not provided in the financial statements | 106.7 | – |
| Capital expenditure in respect of acquisition of other properties, plant and equipment – contracted for but not provided in the financial statements | 11.5 | 2.3 |
| – authorised but not contracted for | 6.4 | – |
| | 124.6 | 2.3 |

The Company had no capital commitment at the balance sheet date.

: Notes to the Financial Statements

For the year ended 31 December 2004

33. CONTINGENT LIABILITIES

| | THE GROUP | | THE COMPANY | |
|--|----------------|----------------|----------------|----------------|
| | 2004 HK\$'M | 2003 HK\$'M | 2004 HK\$'M | 2003 HK\$'M |
| Export bills discounted with recourse | 0.9 | 7.3 | – | – |
| Guarantees given to banks in respect of utilised credit facilities extended to | | | | |
| – subsidiaries | – | – | 489.3 | 508.4 |
| – associates | 301.2 | 193.8 | 301.2 | 193.8 |
| | 301.2 | 193.8 | 790.5 | 702.2 |
| Other guarantees given to banks | 1.9 | – | – | – |
| | 303.1 | 193.8 | 790.5 | 702.2 |

At 31 December 2004, the Company's share of several and proportionate guarantees in respect of unutilised credit facilities granted to associates engaged in property development amounted to HK\$260.8 million (2003: HK\$368.2 million).

34. PLEDGE OF ASSETS

The Group's advances to associates at 31 December 2004 include amounts of HK\$348.8 million (2003: HK\$422.1 million) which are subordinated to the loans facilities of associates. The associates are engaged in property development. The Group's advances to the associates include amounts of HK\$323.4 million (2003: HK\$401.8 million) which are assigned, and the shares in these associates beneficially owned by the Group are pledged to the financial institutions.

At 31 December 2004, certain of the Group's investment properties, properties for own use and properties under development with carrying value of HK\$539.0 million (2003: HK\$532.9 million), HK\$209.8 million (2003: HK\$174.1 million) and HK\$327.2 million (2003: nil) respectively were pledged to secure credit facilities for the Group.

35. RETIREMENT BENEFITS AND PENSION SCHEMES

Certain Hong Kong subsidiaries of the Company have complied with the Mandatory Provident Fund (“MPF”) legislation. All existing and new employees are required to participate in the MPF scheme. Mandatory benefits are being provided under the MPF scheme. In addition to the MPF scheme, certain Hong Kong subsidiaries of the Company have restructured the former defined contribution retirement benefits schemes to defined contribution top up retirement benefits schemes, under which qualifying employees are provided with additional voluntary benefits to the extent that they would otherwise have under the defined contribution retirement benefits schemes and after taking into consideration the mandatory benefits provided under the MPF scheme.

The employees of the Group’s subsidiary in the PRC have participated in a retirement benefit scheme established by the local PRC Social Insurance Industry Management Centre. The subsidiaries are required to contribute 10% – 11% (2003: 10% – 11%) of payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group also operates a defined benefit pension scheme for certain qualifying employees of its overseas subsidiaries. Under the scheme, the employees are entitled to a pension of 1.25% of final salary for each year of pensionable service at a normal retirement age of 65. No other post-retirement benefits are provided. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligations were carried out at 1 May 2002 by Mr. Nigel P. Hacking, Fellow of the Institute of Actuaries, of Barnett Waddingham and was updated to 31 December 2004 for the accounting reporting purpose. The present value of the defined obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

| | 2004 | 2003 |
|-----------------------------------|-------|-------|
| Discount rate | 5.50% | 5.65% |
| Expected return on plan assets | 6.50% | 6.75% |
| Expected rate of salary increases | 3.75% | 3.75% |
| Future pension increases | 2.50% | 2.50% |

The actuarial valuation updated to 31 December 2004 showed that the market value of scheme assets was approximately HK\$64.3 million (2003: HK\$53.5 million) and that the actuarial value of these assets represented 87% (2003: 85%) of the benefits that had accrued to members. The shortfall of approximately HK\$9.7 million (2003: HK\$9.3 million) is to be cleared over the estimated remaining service period of the current membership of 15 years.

: Notes to the Financial Statements

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35. RETIREMENT BENEFITS AND PENSION SCHEMES (cont'd)

Amounts recognised in the consolidated income statement in respect of the defined benefit pension scheme are as follows:

| | 2004 HK\$'M | 2003 HK\$'M |
|---|----------------|----------------|
| Current service cost | 2.0 | 2.1 |
| Interest cost | 3.6 | 2.9 |
| Expected return on plan assets | (3.7) | (3.3) |
| Net actuarial loss recognised in the year | 0.3 | 0.3 |
| | 2.2 | 2.0 |

The charge for the year has been included in administrative expenses.

The actual gain on plan assets was approximately HK\$6.3 million (2003: HK\$7.6 million).

The unrecognised defined benefit asset arising from the Group's obligations in respect of its defined benefit pension scheme is as follows:

| | 2004 HK\$'M | 2003 HK\$'M |
|-------------------------------------|----------------|----------------|
| Fair value of scheme assets | 64.3 | 53.5 |
| Present value of funded obligations | (74.0) | (62.8) |
| | (9.7) | (9.3) |
| Unrecognised actuarial losses | 11.1 | 10.6 |
| Unrecognised defined benefit asset | 1.4 | 1.3 |

35. RETIREMENT BENEFITS AND PENSION SCHEMES (cont'd)

Movements in the net asset (liability) in the current year were as follows:

| | 2004 HK\$'M | 2003 HK\$'M |
|--|------------------------------|----------------|
| At 1 January | 1.3 | 1.1 |
| Exchange differences | 0.1 | 0.1 |
| Amounts charged to the consolidated income statement | (2.2) | (2.0) |
| Contributions | 2.2 | 2.1 |
| At 31 December | 1.4 | 1.3 |
| Restriction on asset recognised | (1.4) | (1.3) |
| Net asset recognised at 31 December | – | – |

36. RELATED PARTY TRANSACTIONS

The Group has made advances and other credit arrangements provided by the Group to its associates. Details of these arrangements at the balance sheet date are set out in notes 16, 33 and 34. In addition, the Group has the following significant transactions with related parties during the year.

| | THE GROUP 2004 HK\$'M | 2003 HK\$'M |
|--|--|----------------|
| Interest income from associates | 7.6 | 6.0 |
| Project management fee income from associates | 7.9 | 8.5 |
| Project management fee income from a subsidiary of the Group's investee company | 1.9 | – |
| Property rental income from a shareholder of the Company | 0.2 | – |

These transactions were carried out on terms similar to those applicable transactions with third parties.

37. POST BALANCE SHEET EVENT

On 31 January 2005, the Group acquired a property for HK\$250.1 million by way of public tender for property development purposes. Subsequently on 14 March 2005, the Group and Winsor entered into a memorandum of agreement pursuant to which the Group agreed to sell 20% interest in the above property project to Winsor, subject to the independent shareholders' approval at a special general meeting to be held on 21 April 2005. Details of this event are included in a circular of the Company to shareholders dated 4 April 2005.

: Notes to the Financial Statements

For the year ended 31 December 2004

38. PRINCIPAL SUBSIDIARIES

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

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|------------------------------|--|---|---|--------------------------------------|
| Accuway Investments Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Aldburg Assets Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Aptex Europe B.V. | Netherlands | DFL40,000 | 100% | Garment trading |
| Bostar Limited | Hong Kong | HK\$100 | 87.5% | Property development |
| Caringbah Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Charmax Trading Limited | Hong Kong | HK\$100 | 91% | Garment trading |
| Charter Star Trading Limited | Hong Kong | HK\$100,000 | 70% | Garment trading |
| Cheong Ka Limited | British Virgin Islands/ People's Republic of China | US\$1 | 78% | Property holding |
| Chung Fook Limited | British Virgin Islands/ People's Republic of China | US\$1 | 100% | Property holding |
| Churrasco Holdings Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Datas Industries Limited | Hong Kong | HK\$2 | 86.4% | Garment manufacturing and trading |
| Delimont Holdings Limited | British Virgin Islands | US\$1 | 100% | Investment holding |

38. PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|---|--|---|---|-----------------------------|
| Dongguan Fude Garment Manufacturing Company Limited* | People's Republic of China | HK\$6,000,000 | 86.4% | Garment manufacturing |
| Dongguan Fumei Garment Manufacturing Company Limited* | People's Republic of China | HK\$7,000,000 | 86.4% | Garment manufacturing |
| Dongguan Grandnice Fashion Limited* | People's Republic of China | HK\$5,500,000 | 86.4% | Property holding |
| Dongguan Xianjie Knitwear Co. Ltd.* | People's Republic of China | HK\$9,000,000 | 78% | Garment manufacturing |
| Eternal Way (Cambodia) Limited | Kingdom of Cambodia | US\$250,000 | 77.8% | Garment manufacturing |
| Eternal Way Holdings Limited | Hong Kong | HK\$2 | 86.4% | Investment holding |
| Fore Prosper Limited | Hong Kong | HK\$100 | 60% | Property investment |
| Gentful Limited | Hong Kong | HK\$2 | 100% | Investment holding |
| Gieves & Hawkes International Limited | United Kingdom | £250,000 | 100% | Licensors |
| Gieves & Hawkes plc | United Kingdom | £3,111,097 | 100% | Investment holding |
| Gieves Limited | United Kingdom | £10,100 | 100% | Retailers |
| Glory Charm Development Limited | Hong Kong | HK\$2 | 100% | Property holding |
| Grandeur Investments Limited | British Virgin Islands/Hong Kong | US\$1 | 100% | Property investment |

: Notes to the Financial Statements

For the year ended 31 December 2004

38. PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|--|--------------------------------------|---|---|---|
| Grandnice Fashion Limited | Hong Kong | HK\$2 | 86.4% | Garment manufacturing |
| Grandslam Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Guangzhou Nansha Riches Faith Ktg & Gmt Ltd.* | People's Republic of China | HK\$5,460,000 | 100% | Garment manufacturing, subcontracting and trading |
| Impact (Cook Islands) Limited | Cook Islands | US\$1,000 | 100% | Sourcing agent |
| Impact Textiles B.V. | Netherlands | DFL30,000 | 100% | Garment trading |
| Impact Textiles Company Limited | Hong Kong | Ordinary shares HK\$4,450,000 Non-voting deferred shares HK\$12,310,000 | 100% 100% | Investment holding and garment trading |
| Impact Textiles International Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Joy Alliance Limited | Hong Kong | HK\$100 | 87.5% | Property development |
| Kih-Oskh Holding N.V. | Netherlands Antilles | US\$6,000 | 100% | Investment holding |
| Kosheen Investments Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Kowloon Station Development Company Limited | Cayman Islands | US\$1 | 100% | Investment holding |
| Lanson Place Hospitality Management Limited | British Virgin Islands | US\$1 | 100% | Investment holding, hospitality and property management |

38. PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|---|--|---|---|--|
| Lanson Place Hospitality Management (Jakarta) Limited | British Virgin Islands/Indonesia | US\$1 | 100% | Hospitality and property management |
| Lanson Place Hospitality Management (Singapore) Pte Limited | Singapore | S\$100 | 100% | Hospitality and property management |
| Lanson Place Hotels & Residences (Bermuda) Limited | Bermuda | US\$12,000 | 100% | Investment holding and licensing |
| Lanson Place Hotels & Residences (Holdings) Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Lanson Place Hotels & Residences (Netherlands) B.V. | Netherlands | DFL40,000 | 100% | Licensing, hospitality and property management |
| Lanson Place Management Limited | Hong Kong | HK\$2 | 100% | Hospitality and property management |
| L'impact Lingerie B.V. | Netherlands | DFL40,000 | 100% | Garment trading |
| L'impact Lingerie Limited | Hong Kong | HK\$400,000 | 100% | Garment trading |
| Longrise (HK) Limited | Hong Kong | HK\$2 | 78% | Garment trading |
| Marvinbond Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Mezereum Limited | British Virgin Islands/Hong Kong | US\$1 | 100% | Property investment |
| Potter Enterprises Limited | British Virgin Islands | US\$1 | 100% | Investment holding |

: Notes to the Financial Statements

For the year ended 31 December 2004

38. PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|---|--------------------------------------|---|---|--|
| Ruyuan Grandnice Garment Manufacturing Company Limited* | People's Republic of China | HK\$15,000,000 | 86.4% | Garment manufacturing |
| Ruyuan Polly Garment Manufacturing Company Limited* | People's Republic of China | HK\$15,000,000 | 70% | Garment manufacturing |
| Shao Guan Ruyuan Global Best Knitwear Co. Ltd.* | People's Republic of China | HK\$7,800,000 | 78% | Garment manufacturing |
| Shui Hing Textiles International Limited | Hong Kong | HK\$75,000,000 | 100% | Investment holding and garment trading |
| Shui Hung Knitting and Garment Factory Limited | Hong Kong | HK\$20,000,000 | 100% | Investment holding and garment manufacturing |
| Shui Pang Enterprise (Macau) Limited | Macau | MOP825,600 | 49% | Garment subcontracting |
| Shui Pang Garment & Knitting Factory Limited | Hong Kong | HK\$2,000,000 | 70% | Investment holding and garment manufacturing |
| Shui Ying Knitting & Garment Factory Limited | Hong Kong | HK\$8,000,000 | 100% | Investment holding and garment manufacturing |
| Success First Development Limited | Hong Kong | HK\$2 | 100% | Property investment |
| Sun Hung International Limited | Hong Kong | HK\$7,500,000 | 78% | Investment holding and garment manufacturing |

38. PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|---|--|---|---|--------------------------------------|
| Teamdoor Investments Limited | Hong Kong | HK\$2 | 86.4% | Garment trading |
| Technic Enterprises Limited | Hong Kong | HK\$2 | 86.4% | Garment trading |
| Telwin Industrial Limited | Hong Kong | HK\$2 | 86.4% | Garment manufacturing and trading |
| Townhill Enterprises Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| Triberg Company Limited | Hong Kong | HK\$2 | 86.4% | Garment trading |
| Twin Dragon Investments Limited | British Virgin Islands/Hong Kong | US\$1 | 100% | Investment holding |
| Unimix Exporters Limited | Hong Kong | HK\$300,000 | 86.4% | Garment trading |
| Unimix Holdings Limited | Hong Kong | HK\$1,100,000 | 86.4% | Investment holding |
| Unimix Limited | Hong Kong | HK\$10,000,000 | 86.4% | Garment manufacturing and trading |
| Unimix Properties Limited | Hong Kong | HK\$200 | 86.4% | Property investment |
| United Success International Investment B.V. | Netherlands | DFL40,000 | 100% | Investment holding |
| United Success International Limited | Hong Kong | HK\$227,750,062 | 100% | Investment holding |
| Universal Team Industrial Limited | Hong Kong | HK\$2 | 100% | Investment holding |
| Universal Plus Limited | British Virgin Islands/Hong Kong | US\$100 | 80% | Investment holding |

: Notes to the Financial Statements

For the year ended 31 December 2004

38. PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Place of incorporation/ operation | Nominal value of issued and fully paid share capital/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | Principal activities |
|--------------------------------------|--|---|---|---|
| USI Holdings (B.V.I.) Limited | British Virgin Islands | US\$50,000 | 100% | Investment holding |
| USI Properties International Limited | British Virgin Islands | US\$1 | 100% | Investment holding |
| USI Property Management Limited | Hong Kong | HK\$2 | 100% | Property development and project management |

* These subsidiaries are wholly foreign owned enterprises established in the People's Republic of China.

Only USI Holdings (B.V.I.) Limited is directly held by the Company.

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

None of the subsidiaries had any debt securities subsisting as at 31 December 2004 or at any time during the year.

39. PRINCIPAL ASSOCIATES

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

| Name of company | Place of incorporation | Attributable proportion of nominal value of issued capital held by the Company indirectly | Principal activities |
|-----------------------------------|-------------------------------|--|--|
| Lancaster Partnership Limited | United Kingdom | 47.5% | Property development |
| Landyork Investment Limited | Hong Kong | 40% | Property development |
| Mancas Investment Limited | Hong Kong | 50% | Property development |
| Mission System Consultant Limited | Hong Kong | 50% | Computer software consultancy |
| Smart Gainful Limited | Hong Kong | 33.3% | Provision of second mortgage financing |
| Union Charm Development Limited* | Hong Kong | 7.5% | Property development |
| Winhome Investment Pte Ltd.* | Singapore | 12% | Property development |
| Winner Max Enterprises Limited | Hong Kong | 33.3% | Property development |

* The Group has the ability to exercise significant influence over these associates. Accordingly, they are regarded as associates of the Group.

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

: Five Year Financial Summary

The following is a summary of the results and of the assets and liabilities of the Group for each of the five years ended 31 December 2004.

| | Year ended 31 December | | | | |
|---|--|----------------------------|------------------------------|------------------------------|------------------------------|
| | 2004 HK\$'M (Note a) | 2003 HK\$'M (Note a) | 2002 HK\$'M (Note a/b) | 2001 HK\$'M (Note a/b) | 2000 HK\$'M (Note a/b) |
| RESULTS | | | | | |
| Turnover | 1,455.8 | 1,470.6 | 1,465.9 | 1,441.8 | 1,688.6 |
| Profit (loss) before taxation | 109.0 | 29.1 | 33.1 | 72.0 | (55.7) |
| Taxation | (10.0) | (6.3) | (9.1) | (14.4) | (12.8) |
| Profit (loss) before minority interests | 99.0 | 22.8 | 24.0 | 57.6 | (68.5) |
| Minority interests | (5.7) | (4.3) | (3.5) | (5.7) | (0.4) |
| Net profit (loss) for the year | 93.3 | 18.5 | 20.5 | 51.9 | (68.9) |
| At 31 December | | | | | |
| | 2004 HK\$'M | 2003 HK\$'M | 2002 HK\$'M | 2001 HK\$'M | 2000 HK\$'M |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 2,542.8 | 2,711.5 | 2,380.5 | 2,279.5 | 2,546.6 |
| Total liabilities | (1,116.1) | (1,395.9) | (1,065.7) | (967.0) | (1,267.5) |
| Minority interests | (61.8) | (57.1) | (56.2) | (65.0) | (75.6) |
| Shareholders' funds | 1,364.9 | 1,258.5 | 1,258.6 | 1,247.5 | 1,203.5 |

Notes:

- (a) The effect of early adoption of Hong Kong Accounting Standard 40 ("HKAS 40") was adjusted to the opening balance of other distributable reserve (deficit) for the year ended 31 December 2004 in accordance with the transitional provisions of HKAS 40. The figures prior to 2004 have not been restated to reflect this change.
- (b) The figures of 2001 and 2002 have been restated to reflect the adoption of the Statement of Standard Accounting Practice 12 (Revised) "Income taxes" in 2003. The figures prior to 2001 have not been restated to reflect this change.

: Properties Held for Investment Purposes

At 31 December 2004

| Address | Gross floor area | Lease term | Effective percentage holding | Particulars of occupancy as at 31 December 2004 |
|--|----------------------------------|--|------------------------------|---|
| Shui Hing Centre, 13 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong (New Kowloon Inland Lot No. 5890) | 186,827 sq.ft. (17,357 sq.m.) | Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance. | 100% | Let to outside parties as workshops, canteen or godowns. |
| No. 81 Hung To Road, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland Lot No. 76) | 110,225 sq.ft. (10,240 sq.m.) | Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance. | 100% | Let to outside parties as workshops or godowns. |
| Unit B, 21st Floor, Prince Industrial Building, 706 Prince Edward Road East and 106 King Fuk Street, San Po Kong, Kowloon, Hong Kong (21/1170th shares of and in New Kowloon Inland Lot No. 4793) | 6,183 sq.ft. (574 sq.m.) | Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance. | 100% | Let to outside parties as workshops. |
| Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong (New Kowloon Inland Lot No. 4899) | 393,842 sq.ft. (36,589 sq.m.) | Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance. | 86.4% | About 27% of the properties was occupied by members of the Group as workshops and offices. The remaining 73% was let to outside parties as workshops, canteen or godowns. |

: Properties Held for Investment Purposes (cont'd)

At 31 December 2004

| Address | Gross floor area | Lease term | Effective percentage holding | Particulars of occupancy as at 31 December 2004 |
|--|-----------------------------|---|------------------------------|---|
| Unit H, 1st Floor, Wong King Industrial Building, 192-198 Choi Hung Road and 2-4 Tai Yau Street, San Po Kong, Kowloon, Hong Kong (2/501th shares of and in New Kowloon Inland Lot No. 4448) | 2,424 sq.ft. (225 sq.m.) | Leased for a term of 99 years less the last three days from 1 July 1898 and extended for a further 50 years as permitted under the New Territories Land Ordinance | 100% | Let to an outside party as workshop |

: Properties Under Development

At 31 December 2004

| Address | Nature of property | Gross floor area | Effective percentage holding | Project status | Expected completion date |
|--|---------------------------|----------------------------------|-------------------------------------|---------------------------|---------------------------------|
| No. 133 Leighton Road, Hong Kong (Inland Lot No. 8774) | Serviced apartment | 110,678 sq.ft. (10,282 sq.m.) | 60% | Renovation in progress | 3rd Quarter 2005 |

: Corporate Information

DIRECTORS

CHENG Wai Chee, Christopher *JP Chairman*
CHENG Wai Sun, Edward *Chief Executive*
CHENG Man Piu, Francis
NG Tak Wai, Frederick
AU Hing Lun, Dennis
CHENG Wai Keung
KWOK Ping Luen, Raymond
WONG Yick Kam, Michael
(also an alternate to KWOK Ping Luen, Raymond)
HONG Pak Cheung, William
Simon MURRAY *CBE*
FANG Hung, Kenneth *GBS JP*
YEUNG Kit Shing, Jackson

AUDIT COMMITTEE

YEUNG Kit Shing, Jackson *Chairman*
Simon MURRAY, *CBE*
FANG Hung, Kenneth *GBS JP*
WONG Yick Kam, Michael

COMPANY SECRETARY

AU Hing Lun, Dennis

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Slaughter and May

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Standard Chartered Bank

REGISTRARS

Principal Register
The Bank of Bermuda Limited
Bank of Bermuda Building
Front Street, Hamilton, Bermuda

Branch Register
Standard Registrars Limited
G/F, Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

HEAD OFFICE

25th Floor, Unimix Industrial Centre
2 Ng Fong Street, San Po Kong
Kowloon, Hong Kong

WEBSITE

<http://www.usi.com.hk>

HONGKONG STOCK EXCHANGE STOCK CODE

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