

USI HOLDINGS LIMITED

(Stock Code: 369)

ANNUAL REPORT 2005

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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, Southeast Asia and China.

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.

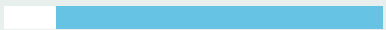
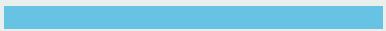
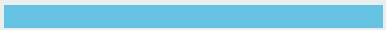

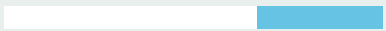






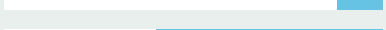


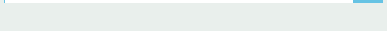
In strategic investments, the Group holds a majority stake in Winsor Properties Holdings Limited. It also has investments in information technology and software companies.

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

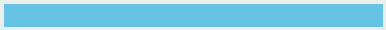
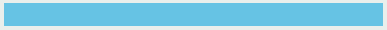
Group Chart

Property





Assets

Unimix Industrial Centre		86.4%
Shui Hing Centre		100%
81 Hung To Road		100%
The Waterfront – Airport Railway Kowloon Station Package 1 at Tsim Sha Tsui		7.5%
The Hillgrove – Siu Lam		33.3%
The Bloomsville – Kowloon Tong		87.5%
The Grandville – Shatin		40%
The Giverny – Sai Kung		50%
157 Argyle Street		80%
314-324 Hennessy Road		70%
Lancaster Gate, UK		47.5%
Kovan Melody, Singapore		12%
Lanson Place Boutique Hotel and Residences – Causeway Bay		60%
Lanson Place Jin Lin Tian Di, Shanghai		23.4%
Shanghai Square		8%

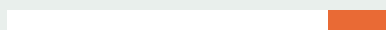
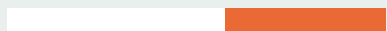
Management Services

Lanson Place Hotels & Residences		100%
USI Property Management		100%

Apparel

Unimix Group		86.4%
Shui Hing Textiles Group		100%
Impact Textiles International		100%
Gieves & Hawkes		100%

Strategic Investments

Winsor Properties Holdings Limited		15%
Mission System Consultant Limited		42.5%

Financial Highlights

	The Group	
	2005	2004 (As restated)
For the year ended 31 December	HK'M	HK'M
Turnover	1,767.9	1,455.8
Profit from operations	529.3	57.4
Profit attributable to Shareholders of the Company	368.5	92.1
Net cash generated from operations	658.5	1.5
Dividends	36.8	9.2
Earnings per share for profit attributable to the shareholders of the Company		
Basic	HK70.0 cents	HK17.8 cents
Diluted	HK69.9 cents	HK17.7 cents
At 31 December		
Total assets	4,768.3	3,036.4
Total equity	1,984.1	1,425.7

Chairman's Statement

In 2005, the Hong Kong economy continued to improve under favourable conditions.

The Group's net profit attributable to the shareholders of the Company for the year ended 31 December 2005 was HK\$368.5 million, as compared to HK\$92.1 million in 2004. Turnover for the year was HK\$1,767.9 million, against HK\$1,455.8 million in 2004. The Board recommends the payment of a final dividend of HK5.5 cents (2004: HK1.75 cent) per share. Together with the interim dividend of HK1.5 cent (2004 : nil) per share, total dividend for the year is HK7.0 cents (2004: HK1.75 cent) per share.

The Group's net profit attributable to the shareholders of the Company of HK\$368.5 million for the year 2005 is a record in the history of the Group. In large part, it can be attributed to the successful launch of the Giverny, a 63-villa luxury development in Hebe Haven, Sai Kung, and the increase in value of Lanson Place Boutique Hotel and Residences in Causeway Bay, Hong Kong, which the Group purchased in 2003. These successes are the result of the Group's decade-long strategy of investment in the residential property development and hospitality management.

The Group began its residential property development businesses in 1995 with the Waterfront in Union Square, in which we led a consortium of premiere Singaporean and Hong Kong investors and developers including Temasek Holdings (Private) Limited, an investment holding company of the Singaporean Government. The Group's vision is to develop the Wing Tai Asia brand as a leader in quality product

development and delivery, innovative marketing and quality customer services.

Since 1997, despite a market that was hard hit by the Asian financial crisis, the dot com bust, "911" and SARS, the Group has remained focused on building the infrastructure necessary to realise our vision and has continued to forge strategic partnerships. Three projects that we launched between 1997 and 2003, namely the Waterfront, the Hillgrove, and the Bloomsville, were all well received in the then-poor market conditions and each of these projects was profitable and achieved prices that were above market averages. At the same time, the Wing Tai Asia brand began to gain market recognition and this further strengthened our residential properties development business. As a result, we embarked upon the Giverny project in 2001 and the Grandville project in Shatin in 2002, both are joint ventures with the Nan Fung Group. The Grandville project was launched towards the end of 2004 with 90% of the development sold within one month at prices 50% above market price in the area. The Grandville development will be completed and delivered to purchasers in 2006 and the profits recognised then will provide a solid earning base for the Property Division in 2006.

The Group's hospitality management business began in 1995 with a vision to develop a brand under the Lanson Place name to focus on providing international business and leisure travellers with quality serviced residences that cater to their lifestyle needs. As a strong brand, Lanson Place will be able to add significant value to our property investments.

Lanson Place began its operations in Kuala Lumpur and Singapore. Emphasising quality and service, it was able to achieve above-market results in those cities under depressed market conditions during the Asian financial crisis. Lanson Place's experience and infrastructure were extended to convert Tower V of the Waterfront into serviced residences in 2002. This has helped to enhance the value of Tower V and eventually the strata sales of Tower V. To further develop the Lanson Place infrastructure in Hong Kong, the Group acquired the property at 133 Leighton Road. We formed a strategic partnership with Morgan Stanley Real Estate Funds ("MSREF") to develop this property into Lanson Place Boutique Hotel and Residences. The property soft-opened in November 2005 and has been very well received by the market with occupancy and rates that are significantly above its investment plans. A significant part of the Group's current year profits was the result of the increase in value of this property.

To extend the Lanson Place brand into the fast-growing China market, the Group furthered its strategic partnership with MSREF in acquiring Jin Lin Tian Di, a luxury residential block in the prime Xin Tian Di area of Shanghai. The property soft-opened as serviced residences in December 2005. It has since produced operating results that are significantly above its business plan. Lanson Place now manages a total of more than 800 suites and apartments in five properties in four major cities in Asia.

The Group expands its property business to include commercial and retail properties. We have been appointed project manager for an office development comprising two grade A office towers with a total floor area of approximately 1.3 million square feet at 102 How Ming Street, Kwun Tong. The site is owned by an associate, Winsor Properties Holdings Limited. The Group acquired the former Bank of East Asia building at 314-324 Hennessy Road in July 2005. We will refurbish this building into a grade A office building with an upscale retail podium to serve the rapidly changing Wan Chai area. During the year, the Group invested in a retail mall with approximately 400,000 square feet of floor space in the prime Huai Hai Zhong Lu area. The retail mall is being renovated into a modern, innovative, lifestyle oriented shopping and meeting place. It is set to open by the end of 2006.

For the remainder of 2006, we continue to be confident of the local economies and that of China. The Group's property business should continue to perform well with sales of the Giverny and the completion of the Grandville in addition to the expected strong performance from Lanson Place Boutique Hotel and Residences in Hong Kong and Lanson Place Jin Lin Tian Di in Shanghai.

In the longer term, the Property Division will continue to focus on our core residential properties business in both Hong Kong and China and to develop our capabilities in other property sectors such

as office and retail properties. We also expect substantial growth in the serviced residences market in Hong Kong and China, where we will leverage the successes of the Lanson Place operations to spearhead further development. Lanson Place will also seek further opportunities in key gateway cities in Asia.

2005 was a challenging year for the Apparel business. The quota-free era so long anticipated by the industry lasted only for a few months before the European Commission (EU) and the USA invoked anti-surge safeguards and re-introduced quotas on key Chinese textile products in the first half of 2005. The disruption to order pattern and the uncertainty in the supply chain that followed this decision lowered the utilisation of our China production capacities and added costs to production, sourcing and distribution. Our operating profit in the first half of 2005 was seriously affected. With the confirmation of the Sino-US and Sino-EU textile arrangement in the second half of the year, a more orderly market emerged and we were able to return to profitability.

Our long term expectation is for our Apparel Division to be a dynamic global apparel supplier for premium service, quality and product value. In line with our business strategies, we will continue to nurture collaboration with key customers in design and development, fully integrated logistics services, and to enhance our production capabilities and technology. The new quantitative restrictions on Chinese textiles by EU and US will last until the end of 2007 and 2008 respectively. During this transitional period, we will continue to focus on building our infrastructure to provide a platform for further growth.

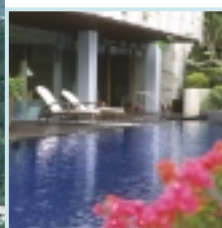
On behalf of the Board of Directors, I would like to thank our management, staff and consultants for their effort and continuing commitment to building a solid foundation for growth and prosperity.

Cheng Wai Chee, Christopher

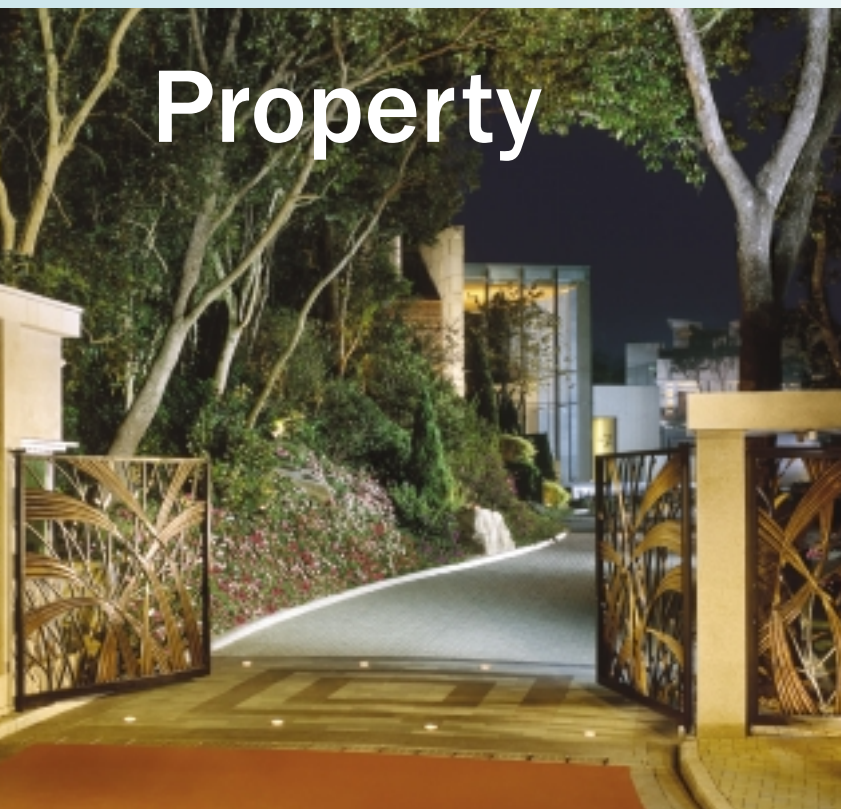
Chairman



Property



Property



Residential Property Development

In 2005, the Property Development business reported a net profit of HK\$189.1 million, as compared to HK\$102.4 million in 2004. During the first half of the year, we launched sales of Tower V of the Waterfront, selling over 70% of the units and generating sales revenue of HK\$1,590 million with an average sales price of approximately HK\$8,000 per square foot. The market began to consolidate in the third quarter after almost two years of increases in both prices and transactions but started picking up again at the beginning of the fourth quarter. The Group launched the first phase of the Giverny (in which the Group has a 50% interest) in October. Sales results were very encouraging. We have sold 20 villas generating a total sales revenue of HK\$653 million on an entry price of HK\$20 million, or HK\$12,000 per square foot, for the smallest mountain view property and up to HK\$83 million, or HK\$20,000 per square foot, for one of the prime detached houses with sea views. These prices reflect market recognition of the Wing Tai Asia brand, the quality of the product and the success of our marketing campaign in bringing out the value of the Sai Kung area as the “back garden” of Hong Kong providing a luxurious lifestyle to residents.

Construction of The Grandville in Shatin, Hong Kong (in which the Group has a 40% interest) and Kovan Melody in Singapore (in which the Group has a 12% interest) is

progressing according to plan. These two developments are expected to be completed in 2006, when revenue and profit from the pre-sale of these properties will be recognised in accordance with the Group's accounting policies.

The Group is in discussions with the government on the modification of the lease of the site at 157 Argyle Street to allow for the construction of a high-rise residential development project. The gross floor area of this development project is expected to be approximately 90,000 square feet.

Property Investment and Management

In 2005, the Group's Property Investment business reported a net profit of HK\$178.2 million, as compared to HK\$47.3 million in 2004. This came mainly from the revaluation gains from its investment properties portfolio which includes the investment properties held and managed by the Group's Hospitality Investment and Management business.

The commercial properties market in Hong Kong was very strong in 2005. In April 2005, the Group was successful in its bid for the former Bank of East Asia Building situated at 314-324 Hennessy Road, Wanchai. The building has a gross floor area of approximately 120,000 square feet and will provide both retail and office space when its renovation is complete in 2007.



Winsor Properties Holdings Limited, in which the Group holds a 15% interest, is a 30% partner in this commercial property project. The Group's intention is to refurbish the building to provide grade A office and upscale retail space to serve the rapidly changing Wan Chai district and capture the upswing in the retail and office market in Hong Kong. With a promising outlook for the retail industry and office market, this property is expected to bring a stable source of income to the Group.

In October 2005, the Group formed a strategic partnership with the founder of Lifestyle Consulting (Shanghai) Ltd ("LCS"), a retail properties development and management specialist, to invest in a retail mall with approximately 400,000 square feet of floor space in the prime Huai Hai Zhong Lu area. MSREF is the majority investor in this project while our partnership is the manager/operator of the property. The founder of LCS is one of the key executives who was instrumental in the development and operation of Xin Tian Di. The retail mall is being renovated as a modern and innovative, lifestyle-oriented shopping and meeting place and is targeted to open by the end of 2006.

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\$55.0 million in 2005. Average rental has improved by 15% in 2005 with year-end occupancy rates similar to last year at around 90%.

Hospitality Investment and Management

2005 marked Lanson Place's first year of boutique hotel operation in Hong Kong and its entry into the China serviced residences market. Lanson Place Residences and Lanson Place Hotels are now being represented in Hong Kong, Shanghai, Singapore and Kuala Lumpur. The Group will continue to search for promising opportunities in strategic cities in China and other parts of Asia.

The renovation of the property at 133 Leighton Road was completed in November 2005 and a hotel license was obtained. The property is managed by Lanson Place and soft-opened for business in December 2005 as Lanson Place Boutique Hotel and Residences. The boutique hotel and residences has 194 suites and is located in the heart of Causeway Bay. The majority of the suites have open views of the mountains or Victoria Park, appealing to their target market of discerning corporate business travellers from around the world. The performance of the boutique hotel and residences has far exceeded the investment budget since opening and the business outlook is positive, given improving economic conditions in Hong Kong. Since the tourism industry in Hong Kong is projected to continue to pick up under favourable economic conditions, the performance of this property is expected to further improve in 2006 when it commences full operation.

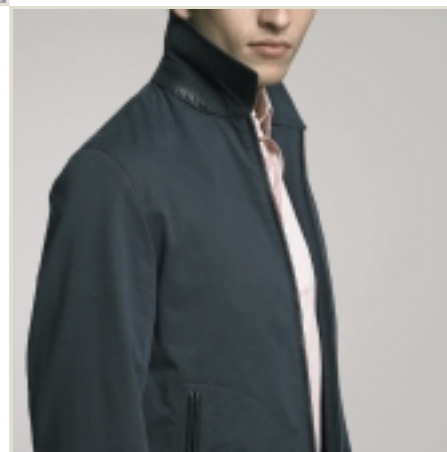
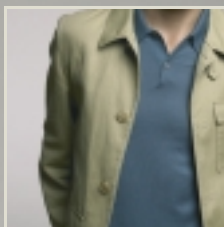
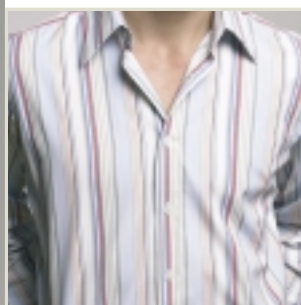
In June 2005, the Group acquired a 23.4% interest in Jin Lin Tian Di, a luxury apartment complex in the prime Xin Tian Di area of Shanghai, China. This represents the Group's first foray into the property market in China. Lanson Place will operate this property as a luxurious up-market serviced residences, targeting senior expatriates of multinational corporations with offices in Shanghai. Property refurbishment is now completed and Lanson Place Jin Lin Tian Di has soft-opened for business with 106 apartments of an average size of around 2,000 square feet. The initial response to this property has been very encouraging in terms of both rental rates and occupancy. Within three months of opening, we achieved 50% occupancy and one of the highest rental rates in Shanghai, exceeding our business plan. With demand for high-end serviced apartments continuing to be keen in Shanghai in 2006, the performance of this operation looks promising.

Occupancy at Lanson Place Winsland Residences in Singapore was 85% in 2005, as compared to the market average of 83%.

In Kuala Lumpur, Lanson Place Ambassador Row Residences achieved 78% occupancy, while Kondo 8 Ampang Hilir maintained its position among the leading condominiums in the Ampang area, continuing to outperform the market with 96% occupancy during 2005.



Apparel



Apparel

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\$3.5 million

in 2005 as compared to HK\$30.4 million for the year 2004. At HK\$992.4 million, turnover showed a small decrease in 2005, as against HK\$1,032.8 million in 2004.

The dip in profitability in 2005 was due to the adverse operating environment brought on by unsettled Sino-US and Sino-EC textile trade arrangement in the first half of 2005. Price competition was intense and orders were shifted offshore or cancelled and, as expected, the Apparel business contribution margin deteriorated accordingly. On the other hand, ongoing cost improvement plans have progressed satisfactorily, with the closure of non-core business units and the realignment of our production capabilities in China and offshore, among other measures.

In the second half of 2005, with the confirmation of the new Sino-US and Sino-EC textile trade arrangement, a more stable market emerged. With a leaner and more focused but flexible base, the Group was able to capitalise on this change in market condition and return to profitability.

While remaining challenging, the 2006 operating environment is expected to offer steady and predictable growth opportunities for Chinese textile products. Although there are adverse factors do exist, including high oil, power and material costs, the Apparel operation is now leaner and more focused while offering flexibility in the production base. We continue to invest in design and development, logistics and technology, and to achieve closer collaboration with our key customers. On the production side, we will continue to improve and reengineer our manufacturing facilities to enhance flexibility and service quality while seeking opportunities to expand our capacity in China and offshore. Our technological capability will be further enhanced with the implementation of an ERP system upgrade which provides a fully integrated order



Gieves & Hawkes plc



tracking system to improve our production and logistics management. We will implement an RFID production tracking system to help us improve production effectiveness and efficiency through better planning, loading and line balancing. With our continuous investment in infrastructure and a more orderly market, the Group has every confidence in the long-term profitability of this business.

Gieves & Hawkes plc

Gieves & Hawkes plc ("G&H"), the Group's menswear retail and licensing operation in the U.K., reported an operating profit of HK\$4.9 million in 2005 as compared to a loss of HK\$0.2 million in 2004.

The new licensee for Japan, appointed in September 2004 and the wholesale division launched in 2003 are now contributing a healthy stream of income to G&H. In addition, two new concession stores at House of Fraser, in Manchester and in Birmingham, which opened in the second half of 2005, were able to capture the shift of retail footfall from London to other major cities following the London bombings in July 2005.

In line with the Group's strategy, G&H will continue to bolster the GIEVES & HAWKES and GIEVES brands and to develop its wholesale and license operations as well as expand retail points at strategic locations.

Strategic Investments

Winsor Properties Holdings Limited (“Winsor”)

Winsor is a listed company in Hong Kong, principally engaged in properties rental and management, logistics management and properties development. The Group owns 14.7% of the company (a stake which was subsequently increased to 15% in March 2006).

In Hong Kong, one of the key assets held by Winsor is a prime office site at 102 How Ming Street in Kwun Tong. It will be developed into two grade A office towers with a gross area of approximately 1,300,000 square feet. The Group is the project manager of this development project. Winsor also holds quality industrial and godown buildings in Hong Kong.

Winsor also holds properties interests in Singapore including interest in Suntec City and interests in residential properties development with Wing Tai Holdings Limited.

Mission System Consultant Limited

The Group owns 42.5% of Mission System Consultant Limited (“MSC”), a software provider offering Enterprise Resources Planning solutions to garment manufacturers and traders.

In 2005, MSC continued to expand with the addition of larger and more renowned corporate clients to its customer base. MSC’s progress is steady and is preparing for a global launch of its products and offerings in the U.S. in 2006. MSC also introduced a ground-breaking factory floor RFID-based product for manufacturers in 2005; completing its portfolio of offerings and cementing its reputation as a full solutions supplier for the apparel supply chain. 2006 will see rewarding growth from MSC’s sourcing and manufacturing customer base.

SUNDAY Communications Limited

On 13 June 2005, the Group sold its investments in SUNDAY Communications Limited to PCCW for cash consideration of approximately HK\$266.6 million. Profit on the disposal amounting to HK\$67.1 million is reported in 2005. Details of the disposal are set out in a circular to shareholders dated 6 July 2005.

Segmental Information

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

	Turnover		Profit from operations	
	2005 HK\$'M	2004 HK\$'M	2005 HK\$'M	2004 HK\$'M
For the year ended 31 December				
Business segment				
Garment manufacturing and trading	1,066.1	1,107.6	(21.0)	15.6
Branded products distribution	235.6	214.0	4.1	(1.1)
Property development	375.4	61.5	209.0	38.2
Property investment and management	67.8	58.4	296.9	49.1
Investing activities	23.0	14.3	86.2	4.9
Unallocated corporate expenses	–	–	(45.9)	(49.3)
	1,767.9	1,455.8	529.3	57.4
Geographical segment				
North America	746.2	853.0	3.3	9.4
Hong Kong	423.8	138.5	522.0	46.7
United Kingdom	310.0	262.0	2.5	(2.8)
Other European countries	143.1	119.7	0.8	(0.3)
Other areas	144.8	82.6	0.7	4.4
	1,767.9	1,455.8	529.3	57.4

Liquidity and Financial Resources

The Group's equity attributable to the shareholders of the Company totalled HK\$1,856.6 million as at 31 December 2005 as compared to HK\$1,363.9 million as at the end of 2004. The increase in equity attributable to the shareholders of the Company can be mainly attributed to the profit for the year 2005 of HK\$368.5 million and investment revaluation reserve of HK\$144.1 million, offset by the distribution of the 2004 final dividend in the first half of 2005.

As at 31 December 2005, the Group's net bank borrowings (total bank borrowings net of cash and bank balances) was HK\$964.0 million (2004: HK\$1,012.3 million), representing 48.6% of the Group's net assets, which compares against 71.0% recorded at the end of 2004. Interest for the Group's bank borrowings was mainly on a floating rate basis. A majority (around 70.6%) of the Group's bank borrowings was repayable in periods beyond one year, and the Group had unutilised banking facilities in excess of HK\$480 million as at the end of 2005 (2004: HK\$500 million).

Foreign Currencies

The Group continues to conduct its business mainly in United States Dollar and Hong Kong Dollar and our policy is to hedge most transactions in other foreign currencies. 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 2005, the Group's contingent liabilities were guarantees given to banks of HK\$1.6 million.

Pledge of Assets

The Group's advances to associates/jointly controlled entities at 31 December 2005 include amounts of HK\$162.3 million which are subordinated to the loans facilities of associates/jointly controlled entities. The associates/jointly controlled entities are engaged in property development. The Group's advances to the associates/jointly controlled entities include amounts of HK\$128.7 million which are assigned, and the shares in these associates/jointly controlled entities beneficially owned by the Group are pledged to the financial institutions.

At 31 December 2005, certain of the Group's investment properties, freehold properties, leasehold land, leasehold building and properties under development with carrying value of HK\$1,308.0 million, HK\$59.5 million, HK\$298.4 million, HK\$96.2 million and HK\$4.5 million respectively were pledged to secure credit facilities for the Group.

In addition to the above, HK\$802.9 million of properties under development for sale included in the consolidated balance sheet of the Group represents the Group's proportionate share in jointly controlled entities which are pledged as security for bank facilities extended to the jointly controlled entities.

Employees

As at 31 December 2005, 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 are eligible under the Company's share option scheme and share incentive scheme in which the share options and incentive shares are generally exercisable within a period of one to five years from the date of grant.

EXECUTIVE DIRECTORS

Mr. CHENG Wai Chee, Christopher *GBS JP*, aged 57, was appointed Chairman of the Company in 1991. Mr. Cheng is Chairman of the Remuneration Committee of the Company. 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 brother of Mr. Cheng Wai Keung, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis.

Mr. CHENG Wai Sun, Edward *JP*, aged 50, was appointed Chief Executive of the Company in 1994. Mr. Cheng is a member of the Remuneration Committee of the Company. 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 active in public service, amongst them, he is the Chairman of the Urban Renewal Authority, a member of the Hong Kong SAR Government's Commission on Strategic Development, and a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption.

Mr. Cheng is brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Keung and Mr. Cheng Man Piu, Francis.

Mr. CHENG Man Piu, Francis, aged 53, 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 brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Keung and Mr. Cheng Wai Sun, Edward.

Mr. NG Tak Wai, Frederick, aged 48, 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 46, 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 55, 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 brother of Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis.

Mr. KWOK Ping Luen, Raymond, aged 52, 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 Transport International 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 54, was appointed non-executive director of the Company in 2002. Mr. Wong is a member of the Audit Committee of the Company. 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 community service, 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 51, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Simon MURRAY CBE, aged 66, was appointed independent non-executive director of the Company in 1994. Mr. Murray is a member of the Remuneration Committee of the Company. He is the Chairman of General Enterprise Management Services Limited, a private equity fund management company owned by Simon Murray & Associates Limited. 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) Limited, Hutchison Whampoa Limited and Orient Overseas (International) Limited.

Mr. FANG Hung, Kenneth GBS JP, aged 67, was appointed independent non-executive director of the Company in 1997. Mr. Fang is a member of the Audit Committee and the Remuneration Committee of the Company. 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.

Directors and Senior Management Profile

Mr. YEUNG Kit Shing, Jackson, aged 56, was appointed independent non-executive director of the Company in 2004. He is the Chairman of the Audit Committee and a member of the Remuneration 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

Mr. CHUNG Siu Wah, Henry, aged 51, 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 from The University of Hong Kong, a Bachelor's Degree in Laws from University of London, a Bachelor's Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor's Degree in Laws from Tsinghua University. He is a Barrister, a Certified Accountant and a Chartered Secretary.

Mrs. LI KAN Fung Ling, Karen, aged 44, is the Executive Director of Lanson Place, the hospitality management arm of the Group. Joining the Group in 1994, she has been responsible for the hospitality projects in Asia and the marketing and sales program of the residential projects in Hong Kong. She has over 18 years of experience in strategic planning and operations with Wharf Hotels Investment Limited (H.K.), Hilton Hotels Corporation (Beverly Hills) and MCI Communications Corporation (Washington, D.C.). She holds a BBA degree with distinction in Hotels and Tourism Management from University of Hawaii and an 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 2005.

PRINCIPAL ACTIVITIES

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

The Group's jointly controlled entities and associates are principally engaged in property development.

Details of the Company's principal subsidiaries, Group's principal associates and jointly controlled entities at 31 December 2005 are set out in notes 41 to 43 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 41.

An interim dividend of HK1.5 cent (2004: nil) per share, amounting to a total of about HK\$7.9 million, was paid to shareholders on 14 October 2005.

The directors recommend the payment of a final dividend of HK5.5 cents per share for the year ended 31 December 2005 (2004: HK1.75 cent per share) to shareholders whose names appear on the Register of Members of the Company on 16 June 2006, which together with the interim dividend payment amounts to a total of approximately HK\$36.8 million. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable to shareholders on 23 June 2006.

SHARE CAPITAL

Movements in the Company's authorised and issued share capital as at 31 December 2005 are set out in note 31 to the financial statements.

RESERVES

Movements in the reserves of the Group and of the Company are set out in note 33 to the financial statements.

INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2005 on an open market value basis. Movements in the investment properties balance during the year are set out in note 15 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2005 is set out on page 108.

PROPERTIES UNDER DEVELOPMENT

Details of the Group's properties under development at 31 December 2005 are set out on page 109. Movements in the properties under development balance during the year are set out in note 16 to the financial statements.

OTHER PROPERTIES, PLANT AND EQUIPMENT

Details of the Group's other properties, plant and equipment are set out in note 17 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$0.5 million.

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 *GBS JP, Chairman*
Cheng Wai Sun, Edward *JP, Chief Executive*
Cheng Man Piu, Francis
Ng Tak Wai, Frederick
Au Hing Lun, Dennis

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

In accordance with bye-law 100 of the Company's Bye-laws, Messrs. Wong Yick Kam, Michael, Hong Pak Cheung, William and Simon Murray will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

According to the Bye-laws of the Company, all directors, except the Chairman of the Company, are subject to retirement by rotation. In order to comply with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), Mr. Cheng Wai Chee, Christopher, Chairman of the Company, has undertaken that he shall voluntarily retire by rotation every three years. Mr. Cheng will retire at the forthcoming annual general meeting and being eligible, offers himself for re-election.

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.

PUBLIC FLOAT

The Listing Rules normally requires issuers to maintain at least 25% of their listed securities in public hands at all times.

On 13 July 2005, the Company was notified that certain associated persons (who are unconnected with the Company's directors or its controlling and other substantial shareholders) had increased their aggregate percentage holdings in the Company's shares from 9.91% to 10.01%. Accordingly, such associated persons became substantial shareholders of the Company for the purpose of the Listing Rules. As substantial shareholders, they are connected persons of the Company and are no longer members of the public for the purpose of determining the percentage of the Company's shares in public hands. As a result, the percentage of the Company's shares in public hands was reduced to 20.07%.

The above matter was the subject of certain rulings by the Listing Division (as defined in the Listing Rules). These rulings were in turn the subject of a hearing by the Listing Committee (as defined in the Listing Rules). The Listing Committee then made certain decisions and directions which are currently the subject of review by the Listing (Review) Committee (as defined in the Listing Rules).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2005, the interests of the directors and the chief executive of the Company in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of director	Number of shares held					% of the Company's issued share capital
	Personal interest	Family interest	Corporate interest	Other interest	Total	
Cheng Wai Chee, Christopher	2,075,999	–	150,409,086 (Note a)	110,595,862 (Note b)	263,080,947	50.00%
Cheng Wai Sun, Edward	2,000,000	–	–	110,595,862 (Note b)	112,595,862	21.40%
Cheng Man Piu, Francis	–	–	–	110,595,862 (Note b)	110,595,862	21.02%
Cheng Wai Keung	–	–	–	110,595,862 (Note b)	110,595,862	21.02%
Ng Tak Wai, Frederick	968,000	762,000	–	–	1,730,000	0.33%
Au Hing Lun, Dennis	384,000	–	–	–	384,000	0.07%

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.

Directors' Report

- (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.

Details of the share options granted under the Share Option Scheme and of the incentive shares awarded under the Share Incentive Scheme to the directors of the Company are set out on page 28 in the "Share Option Scheme/Share Incentive Scheme" section of this report.

All the interests in shares and underlying shares of the Company disclosed above under this section represent long position in the shares of the Company. Save as disclosed above, as at 31 December 2005, 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.

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 2005, the following persons (other than the directors and the chief executive of the Company) had interests in the shares and underlying 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
Wing Tai Holdings Limited	110,595,862	21.02 (Note 1)
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	83,316,158	15.83 (Note 4)
Sun Hung Kai Properties Limited	100,762,150	19.15 (Note 4)
Lo Yuk Sui	52,668,000	10.01 (Notes 5a & 5b)
Century City International Holdings Limited	52,668,000	10.01 (Notes 5a & 5b)
Century City BVI Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Paliburg Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Paliburg Development BVI Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Paliburg International Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Paliburg BVI Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Regal Hotels International Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Regal International (BVI) Holdings Limited	52,668,000	10.01 (Notes 5b & 5d)
Real Chance Profits Limited	51,676,000	9.82 (Notes 5c & 5d)
HK 168 Limited	51,676,000	9.82 (Notes 5c & 5d)

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 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 was deemed to have an interest through its direct shareholding interests in HK 168. 992,000 shares of the Company were beneficially owned by a company controlled by Regal International (BVI) Holdings Limited ("Regal BVI").

Regal BVI, 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 indirect shareholding interests in the said beneficial owners of the 52,668,000 shares of the Company.
- (b) These interests in 52,668,000 shares of the Company are duplicated amongst Mr. Lo Yuk Sui and all these companies.
- (c) These interests in 51,676,000 shares of the Company are duplicated amongst Mr. Lo Yuk Sui and these companies.
- (d) These companies are controlled by CCIHL.

All the interests in shares disclosed under this section represent long position in the shares of the Company. Save as disclosed above, as at 31 December 2005, 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 SCHEME

Details of the share options granted to an independent non-executive director under the Share Option Scheme are as follows:–

Name	Date of grant	Exercise price per share	Number of shares issuable under the options granted				Exercisable period
			As at 1 January 2005	Granted during the year	Exercised during the year	As at 31 December 2005	
Simon Murray	19.4.2005	HK\$2.125	–	1,000,000	–	1,000,000	19.4.2006 to 18.4.2010

Details of the Share Option Scheme of the Company are set out in note 32 to the financial statements.

SHARE INCENTIVE SCHEME

Details of the incentive shares awarded to executive directors under the Share Incentive Scheme are as follows:–

Name	Date of award	Subscription price per share*	As at 1 January 2005	Awards made during the year	Awards vested during the year	As at 31 December 2005	Vesting period
Cheng Wai Chee, Christopher	13.9.2005	HK\$0.5	–	600,000	–	600,000	13.9.2006 to 12.9.2009
Cheng Wai Sun, Edward	13.9.2005	HK\$0.5	–	600,000	–	600,000	13.9.2006 to 12.9.2009
Ng Tak Wai, Frederick	13.9.2005	HK\$0.5	–	90,000	–	90,000	13.9.2006 to 12.9.2009
Au Hing Lun, Dennis	13.9.2005	HK\$0.5	–	150,000	–	150,000	13.9.2006 to 12.9.2009

* Fund for subscription price will be provided by the Company at a time of the exercise of right to subscribe for shares of the Company by the executive directors.

Details of the Share Incentive Scheme of the Company are set out in note 32 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 business 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 Inc. (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 and Cambodia 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 property development business of WPHL may be regarded as competitive to the Group's property rental business and property development business.

Directors' Report

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 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 independent non-executive directors of the Company 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.

Mr. Kwok Ping Luen, Raymond is a director of Transport International Holdings Limited ("TIH"). Businesses of TIH 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

During the year ended 31 December 2005, the Group had the following connected transactions, details of which are set out below:

I) Connected Transactions

- (1) Loan Facilities for an amount of HK\$1,401 million granted by The Hongkong and Shanghai Banking Corporation Limited to Union Charm Development Limited ("UCD") had been repaid in full on 20 September 2005. All the securities in connection with these loan facilities provided by the Company and its subsidiaries have been released.
- (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 Wing Tai Holdings Limited ("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 amounted to HK\$51.2 million in 2005.

WTH is a substantial shareholder of the Company and a connected person of the Company for the purpose of the Listing Rules. WPHL is a substantial shareholder of two subsidiaries 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 (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.
- (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\$1.8 million.

- (5) On 14 March 2005, the Company and WPHL entered into a memorandum of agreement pursuant to which the Company and WPHL formed a 80:20 joint venture for the investment and development of the property situated at No.157 Argyle street, Kowloon (the "Property"). The joint venture, Pangold Development Limited ("Pangold"), acquired the Property by way of public tender at the tender purchase price of HK\$250.1 million. This connected transaction was approved by the independent shareholders (voting by poll) at a special general meeting held on 21 April 2005.

A shareholders agreement had been entered into on 14 July 2005 by the Company and WPHL which sets out the terms governing the management of Pangold and the obligations of the parties to the agreement.

- (6) On 30 September 2005, the Company and WPHL entered into a memorandum of agreement pursuant to which the Company and WPHL formed a 70:30 joint venture for the refurbishment of the property situated at Nos. 314-324 Hennessy Road, Hong Kong (the "Building"). The Building was acquired by the joint venture, Winnion Limited ("Winnion"), by way of public tender at the tender purchase price of HK\$529 million.

The total investment amount of Winnion in the Building was estimated to be about HK\$700 million which includes (i) the tender purchase price of the Building; (ii) the costs incurred in the acquisition of the Property and (iii) the estimated costs of refurbishment of the Building. This connected transaction was approved by the independent shareholders (voting by poll) at a special general meeting held on 9 November 2005. WPHL's total investment in Winnion was estimated to be about HK\$210 million.

A shareholders agreement had been entered into on 28 November 2005 by the Company and WPHL which sets out the terms governing the management of Winnion and obligations of the parties to the agreement.

II) Continuing Connected Transaction

On 22 June 2005, the Group formed a joint venture with Morgan Stanley Real Estate Fund IV International Funds ("MSREF IV International"), a substantial shareholder of a subsidiary of the Company and therefore a connected person of the Company under the Listing Rules, for the Lanson Place Jin Lin Tian Di serviced apartment project ("Project"). In connection with the Project:

- (1) Flourish City Limited ("Flourish City"), a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement and a Shareholders' Agreement with MSR Capital Two Limited ("MSREF"), a subsidiary of MSREF IV International. Under the Share Purchase Agreement, Flourish City acquired 23.4% of the issued share capital of Jin Lin Tiandi Holding Company ("JLTDH") from MSREF. JLTDH ultimately has a wholly foreign owned enterprise, Shanghai Jinlin Tiandi Serviced Apartment Management Co. Ltd ("WFOE") in the PRC which owns a serviced apartment tower, 50 carparks and a club house in Shanghai (together the "Assets").

The Shareholders' Agreement sets out the terms governing the management and operation of, and the relationship of the parties as shareholders in, JLTDH;

- (2) Lanson Place Hotels and Residences (Bermuda) Limited ("Lanson Place Bermuda"), a wholly-owned subsidiary of the Company, entered into a Licence Agreement with WFOE under which Lanson Place Bermuda is to grant a royalty-free, non-exclusive licence to WFOE to use in the PRC certain trademarks which were registered at the PRC Trademark Office in connection with the operations and running of the serviced apartments owned by WFOE;
- (3) Lanson Place Management Limited ("Lanson Place"), a wholly-owned subsidiary of the Company, entered into an Operating Agreement with WFOE pursuant to which Lanson Place is to manage the Assets on behalf of WFOE. The Operating Agreement is for a term of three years commencing from 22 June 2005. Lanson Place received a fee of RMB1,242,000 (equivalent to approximately HK\$1,163,000) for the services it provided prior to the opening of the project.

The total management fee of HK\$3,522 (including a basic management fee of HK\$3,522 and an incentive management fee of HK\$Nil) received by Lanson Place for the year ended 31 December 2005 is within the Annual Cap for 2005 as set out in the Company's announcement dated 23 June 2005.

The independent non-executive directors of the Company have reviewed and confirmed that the above continuing connected transactions:

- (a) were entered into in the ordinary and usual course of business of the Group;
- (b) were entered into on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (c) were entered into on normal commercial terms; and
- (d) were entered into in accordance with the relevant agreement governing such transactions.

The external auditors of the Company have also confirmed that the above continuing connected transactions:

- (a) had been approved by the directors;
- (b) were in accordance with the relevant agreement governing such transactions; and
- (c) had not exceeded the annual cap as disclosed in previous announcements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate amount of turnover attributable to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The aggregate amount of purchase attributable to the Group's five largest suppliers was 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 2005, the aggregate amount of financial assistance to and guarantees given for facilities granted to affiliated companies by the Group amounted to HK\$431.7 million in aggregate which exceeded 8% of the assets ratios as defined in Rule 14.07(1) 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 2005 are presented below:

	Pro-forma combined balance sheet HK\$'M	Group's attributable interest HK\$'M
Non-current assets	2,362.7	312.4
Current assets	4,450.3	1,636.8
Current liabilities	(3,326.4)	(1,347.8)
Non-current liabilities	(2,588.5)	(358.3)
Net assets	<u>898.1</u>	<u>243.1</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.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 107.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditors of the Company.

On behalf of the Board

Cheng Wai Chee, Christopher

Chairman

Hong Kong, 20 April 2006

1. COMPLIANCE WITH APPENDIX 14 TO THE RULES GOVERNING THE LISTING OF SECURITIES (“LISTING RULES”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

The Company has complied with the provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, except that non-executive directors were not appointed for specific terms but they are subject to retirement by rotation in accordance with the Company's By-laws, throughout the financial year ended 31 December 2005.

2. COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)

The Company has adopted the 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 enquiry 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.

3. BOARD OF DIRECTORS

As at the date of this report, the Company's Board of Directors (the “Board”) comprises five executive directors, four non-executive directors and three independent non-executive directors. Names and other details of the Directors are given on page 24 of the Directors' Report.

Each of the independent non-executive directors had confirmed his independence with the Stock Exchange before September 2004. The Company has received annual confirmations from all independent non-executive directors that they did not have any business or financial interest with the Group and were independent as at 31 December 2005 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non-executive directors of the Company are independent.

Chairman and Chief Executive

Mr. Cheng Wai Chee, Christopher is the Chairman of the Board and Mr. Cheng Wai Sun, Edward is the Chief Executive of the Group. While the Chairman of the Board is responsible for providing leadership for the Board, ensuring that all directors are properly briefed on issues arising at Board meetings and receive complete, reliable and timely information, the Chief Executive is responsible for the day-to-day management of the Group's business.

Non-executive Directors

The non-executive directors (including independent non-executive directors) were not appointed for specific terms but all of them are subject to retirement by rotation in accordance with the Bye-laws of the Company.

Functions and responsibilities of the Board

On 12 July 2005, the Company formalised in writing the functions and responsibilities reserved to the Board and the functions and responsibilities delegated to management as follows:

- i) the Board shall approve the yearly budgets of the Company and its subsidiaries;
- ii) the Board shall monitor the operating and financial performance of the Company and its subsidiaries;
- iii) the Board shall oversee the processes for evaluation of the adequacy of internal controls, risk management, financial reporting and compliance;
- iv) the Board shall assume responsibility for corporate governance; and
- v) the day-to-day operations of the Company and its subsidiaries is delegated to the management led by the Chief Executive.

Four board meetings had been held during the year. Attendance of each member at the board meeting is set out in the table under the section “Meeting Attendance” of this report.

4. REMUNERATION COMMITTEE

On 12 July 2005, the Remuneration Committee was formed and the terms of reference have been published on the Company’s website. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Simon Murray, Mr. Fang Hung, Kenneth and Mr. Yeung Kit Shing, Jackson and two executive directors, namely Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward. Mr. Cheng Wai Chee, Christopher is the Chairman of the Remuneration Committee.

The duties and functions of the Remuneration Committee are:

- (i) recommendation of remuneration policy and structure for executive directors;
- (ii) determination of remuneration packages of executive directors;
- (iii) review and approve performance-based remuneration for executive directors; and
- (iv) recommendation of remuneration packages for non-executive directors.

The Remuneration Committee held its first meeting on 12 January 2006. Attendance of each member at the Remuneration Committee meeting is set out in the table under the section “Meeting Attendance” of this report.

Remuneration Policy for Executive Directors

The principal elements of the executive directors' remuneration packages include base salaries and discretionary bonus which includes both cash and share incentives. The remuneration packages of the executive directors will be proposed jointly by the Chairman and the Chief Executive of the Group annually for the review and approval of the Remuneration Committee based on the following factors:

- a) the executive director's responsibilities;
- b) the executive director's individual performance;
- c) performance of the business unit(s) headed by the executive director; and
- d) performance of the Group as a whole.

Remuneration Policy for Non-executive Directors

The non-executive directors' remuneration, comprising directors' fee, is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the Annual General Meetings.

Details of the remuneration of directors are set out in note 9 to the financial statements.

5. NOMINATION OF DIRECTORS

The Board reviews its structure and composition on a regular basis to ensure that it has the expertise and independence to carry out its functions and responsibilities. Pursuant to the Bye-laws of the Company, any director newly appointed by the Board during the year shall hold office until the next annual general meeting and shall then be eligible for re-election at that annual general meeting.

6. AUDIT COMMITTEE

During the year and up to the date of this report, the members of the Audit Committee are:

Independent non-executive director:

Mr. Yeung Kit Shing, Jackson (*Committee Chairman*)

Mr. Fang Hung, Kenneth *GBS JP*

Mr. Simon Murray *CBE* (resigned as a member on 24 October 2005)

Non-executive director:

Mr. Wong Yick Kam, Michael

Mr. Hong Pak Cheung, William (alternate to Mr. Wong Yick Kam, Michael)

Corporate Governance Report

The followings were discussed during the three Audit Committee meetings held in 2005:

- a) the Company's annual and interim reports and financial statements;
- b) internal audit plans and findings;
- c) external auditors' audit plan and findings; and
- d) appointment and remuneration of external auditors.

On 11 November 2004, the Board adopted a new set of terms of reference for the Audit Committee having regard to "A Guide for Effective Audit Committees" published by the Hong Kong Society of Accountants (as it was then known) in February 2002. The terms of reference of the Audit Committee are published on the Company's website and are also available in writing upon request to the Company Secretary.

7. MEETING ATTENDANCE

The attendance rates of individual members at Board and Committee meetings in 2005 are detailed in the following table:

	Board meetings	Remuneration Committee meeting	Audit Committee meetings
Mr. Cheng Wai Chee, Christopher	4/4	1/1	N/A
Mr. Cheng Wai Sun, Edward	4/4	1/1	N/A
Mr. Cheng Man Piu, Francis	4/4	N/A	N/A
Mr. Ng Tak Wai, Frederick	4/4	N/A	N/A
Mr. Au Hing Lun, Dennis	4/4	N/A	N/A
Mr. Cheng Wai Keung	0/4	N/A	N/A
Mr. Kwok Ping Luen, Raymond	0/4	N/A	N/A
Mr. Wong Yick Kam, Michael	3/4	N/A	3/3
Mr. Hong Pak Cheung, William	3/4	N/A	3/3
Mr. Simon Murray	1/4	1/1	2/3
Mr. Fang Hung, Kenneth	4/4	1/1	3/3
Mr. Yeung Kit Shing, Jackson	4/4	1/1	3/3

8. AUDITORS' REMUNERATION

PricewaterhouseCoopers ("PwC") was appointed the auditors of the Company at the last annual general meeting of the Company held on 17 June 2005 in place of the retiring auditors, Deloitte Touche Tohmatsu. The remuneration in respect of audit and non-audit services provided by PwC for the financial year ended 31 December 2005 are HK\$1,880,000 and HK\$568,000 respectively.

9. FINANCIAL REPORTING

The directors of the Company acknowledged that they are responsible for the preparation of the accounts which give a true and fair view and that appropriate accounting policies have been selected and applied consistently.

10. CORPORATE COMMUNICATION

The annual general meeting provides a forum for shareholders to exchange views with the Board. The Chairman of the Board, Chairman of Audit Committee and Chairman of the Remuneration Committee will be available to answer shareholders' questions at the meeting.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders which is dispatched together with the annual report.

All the publications of the Company, including annual report, interim report, circular, notice of general meetings, results of the poll of general meetings are available on the Stock Exchange's website at www.hkex.com.hk.

The Company's website at www.usi.com.hk offers timely access to investors regarding the Company's financial, corporate and other information.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

TO THE SHAREHOLDERS OF USI HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 41 to 106 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 1981 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 Hong Kong Standards on Auditing 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 2005 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	2005 HK\$'M	2004 (As restated) HK\$'M
Turnover	6	1,767.9	1,455.8
Cost of sales		(1,201.3)	(1,131.5)
Gross profit		566.6	324.3
Other operating income		14.0	39.9
Distribution costs		(110.2)	(100.2)
Administrative expenses		(282.3)	(254.0)
Change in fair value of investment properties		276.1	39.9
Gain on disposal of strategic investments		67.1	–
(Impairment losses recognised) reversal of impairment losses in respect of strategic investments		(2.0)	7.5
Profit from operations	8	529.3	57.4
Finance charges		(24.4)	(19.4)
Finance income		6.0	1.1
Net finance charges	10	(18.4)	(18.3)
Share of results of associates		13.1	61.1
Gain on disposal of an associate		–	7.6
Profit before taxation		524.0	107.8
Taxation	11	(89.6)	(10.0)
Profit for the year		434.4	97.8
Attributable to:			
Shareholders of the Company		368.5	92.1
Minority interests		65.9	5.7
		434.4	97.8
Dividends	12	36.8	9.2
Earnings per share for profit attributable to the shareholders of the Company	13		
– Basic		HK70.0 cents	HK17.8 cents
– Diluted		HK69.9 cents	HK17.7 cents

The notes on page 48 to 106 are an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005

	NOTES	2005 HK\$'M	2004 (As restated) HK\$'M
ASSETS AND LIABILITIES			
Non-current assets			
Leasehold land and land use rights	14	780.4	235.9
Investment properties	15	1,311.6	541.6
Properties under development	16	89.5	144.6
Other properties, plant and equipment	17	287.2	278.2
Interests in associates	19	199.5	165.8
Strategic investments	20	418.4	430.3
Other non-current assets	21	0.5	1.6
		3,087.1	1,798.0
Current assets			
Inventories	22	123.9	133.9
Properties under development for sale	23	803.2	666.3
Trade and other receivables and prepayments	24	460.9	116.0
Bills receivable		27.0	67.4
Derivative financial instruments	25	2.7	–
Sales proceeds held in stakeholders' accounts		113.6	101.2
Held to maturity investments		–	1.8
Amounts due from associates	19	9.3	8.4
Taxation recoverable		2.7	3.6
Bank balances and cash		137.9	139.8
		1,681.2	1,238.4
Current liabilities			
Trade and other payables	26	365.5	258.7
Bills payable		15.2	13.7
Properties presale proceeds received		902.5	107.4
Amount due to an associate	19	4.8	–
Taxation payable		39.2	0.4
Bank borrowings in respect of bills		9.3	–
Short-term bank borrowings and overdrafts	27	4.3	3.3
Bank loans – amount due within one year	28	310.5	448.4
		1,651.3	831.9
Net current assets		29.9	406.5
Total assets less current liabilities		3,117.0	2,204.5

Consolidated Balance Sheet (cont'd)

At 31 December 2005

	NOTES	2005 HK\$'M	2004 (As restated) HK\$'M
Non-current liabilities			
Bank loans – amount due after one year	28	777.8	700.4
Other long-term loans	29	279.5	52.5
Deferred taxation	30	75.6	25.9
		<u>1,132.9</u>	<u>778.8</u>
NET ASSETS		<u>1,984.1</u>	<u>1,425.7</u>
EQUITY			
Share capital	31	263.1	263.1
Reserves	33	1,593.5	1,100.8
		<u>1,856.6</u>	<u>1,363.9</u>
Equity attributable to the shareholders of the Company		1,856.6	1,363.9
Minority interests		<u>127.5</u>	<u>61.8</u>
TOTAL EQUITY		<u>1,984.1</u>	<u>1,425.7</u>

The notes on page 48 to 106 are an integral part of these financial statements.

The financial statements on page 41 to 106 were approved and authorised for issue by the Board of Directors on 20 April 2006 and are signed on its behalf by:

Cheng Wai Sun, Edward
Director

Ng Tak Wai, Frederick
Director

Balance Sheet

At 31 December 2005

	NOTES	2005 HK\$'M	2004 HK\$'M
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	<u>1,182.8</u>	<u>1,194.0</u>
Current assets			
Other receivables and prepayments		0.3	0.7
Bank balances and cash		<u>0.2</u>	<u>10.1</u>
		0.5	10.8
Current liabilities			
Other payables		<u>1.0</u>	<u>1.1</u>
Net current (liabilities) assets		<u>(0.5)</u>	<u>9.7</u>
NET ASSETS		<u>1,182.3</u>	<u>1,203.7</u>
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY			
Share capital	31	263.1	263.1
Reserves	33	<u>919.2</u>	<u>940.6</u>
TOTAL EQUITY		<u>1,182.3</u>	<u>1,203.7</u>

The notes on page 48 to 106 are an integral part of these financial statements.

Cheng Wai Sun, Edward
Director

Ng Tak Wai, Frederick
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	2005 HK\$'M	2004 (As restated) HK\$'M
At 1 January		
– as previously reported as equity	1,363.9	1,258.5
– as previously reported separately as minority interests	61.8	57.1
	1,425.7	1,315.6
– opening adjustments on adoption of new/revised HKFRSs	48.4	0.2
– as restated	1,474.1	1,315.8
Exchange differences arising on translation of financial statements	(0.2)	8.6
Surplus arising on revaluation of strategic investments	163.1	–
Investment revaluation reserve realised on disposal of strategic investments	(67.1)	–
Increase in hedging reserve	2.4	–
Increase in employee share-based compensation reserve	0.5	–
Share of reserves of associates	–	(0.1)
Net income recognised directly in equity	98.7	8.5
Net profit for the year	434.4	97.8
Total recognised income for the year (Note)	533.1	106.3
	2,007.2	1,422.1
Adjustment of other property revaluation reserve in respect of leasehold land	(6.0)	–
Translation reserve realised on disposal of an associate	–	3.0
Issue of shares on exercise of share options	–	6.9
Dividends paid	(17.1)	(6.3)
At 31 December	1,984.1	1,425.7
Note:		
Total recognised income for the year attributable to:		
Shareholders of the Company	467.4	100.5
Minority interests	65.7	5.8
	533.1	106.3

The notes on page 48 to 106 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 HK\$'M	2004 (As restated) HK\$'M
Cash flows from operating activities		
Profit from operations	529.3	57.4
Adjustments for:		
Gain on disposal of strategic investments	(67.1)	–
Compensation expense in respect of share options and incentive shares	0.5	–
Change in fair value of investment properties	(276.1)	(39.9)
Impairment losses recognised (reversal of impairment losses) in respect of strategic investments	2.0	(7.5)
Interest and investment income	(21.8)	(9.1)
Amortisation of permanent textile quota entitlements	–	0.4
Amortisation of trademark	0.1	0.1
Depreciation and amortisation		
– leasehold land and land use rights	7.2	4.7
– other properties, plant and equipment	24.6	23.9
Loss on disposal of other properties, plant and equipment	1.2	0.1
Operating cash flows before movements in working capital	199.9	30.1
Decrease in inventories	5.7	0.9
Increase in properties under development for sale	(147.0)	(163.2)
(Increase) decrease in trade and other receivables and prepayments	(351.8)	78.4
Decrease in bills receivable	40.4	42.0
Increase in sales proceeds held in stakeholders' accounts	(12.4)	(101.2)
Increase in amounts due from associates	(0.9)	(1.8)
Increase in trade and other payables	123.2	7.3
Increase in properties presale deposits received	795.1	107.4
Increase in bills payable	1.5	1.7
Increase (decrease) in amount due to an associate	4.8	(0.1)
Net cash generated from operations	658.5	1.5
Interest and dividend income received	13.6	5.5
Interest paid on bank and other borrowings	(46.1)	(20.8)
Hong Kong profits tax refund (paid)	0.2	(0.8)
Tax paid in other jurisdictions	(0.4)	(0.9)
Net cash generated from (used in) operating activities	625.8	(15.5)

Consolidated Cash Flow Statement (cont'd)

For the year ended 31 December 2005

	2005 HK\$'M	2004 (As restated) HK\$'M
Cash flows from investing activities		
Purchase of leasehold land and land use rights	(735.0)	(172.7)
Purchase of properties under development	(239.8)	(143.2)
Purchase of other properties, plant and equipment	(42.5)	(33.5)
Purchase of strategic investments	(8.7)	(15.6)
Purchase of trademark	(0.2)	–
Repayment of advances from associates	31.5	128.9
(Increase) decrease in investments the underlying business of which is property development	(36.8)	20.6
Proceeds from redemption of debt securities	1.8	4.7
Other interest income received	6.0	1.1
Proceeds from disposal of other property, plant and equipment	–	0.7
Repayments of mortgage loans receivable	1.2	0.7
Investments in associates	(42.7)	–
Proceeds from disposal of strategic investments	266.6	–
Net cash used in investing activities	(798.6)	(208.3)
Cash flows from financing activities		
Bank and other loans raised	1,782.4	491.9
Issue of shares	–	6.9
Repayment of bank and other loans	(1,591.8)	(333.0)
Increase (decrease) in trust receipts and import loans	1.3	(5.9)
Dividends paid by the Company	(17.1)	(5.2)
Dividends paid to minority shareholders of subsidiaries	–	(1.1)
Net cash from financing activities	174.8	153.6
Effect of foreign exchange rate changes	(3.6)	1.8
Decrease in cash and cash equivalents	(1.6)	(68.4)
Cash and cash equivalents at beginning of the year	139.3	207.7
Cash and cash equivalents at end of the year	137.7	139.3
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	137.9	139.8
Bank overdrafts	(0.2)	(0.5)
	137.7	139.3

The notes on page 48 to 106 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company, its subsidiaries and its jointly controlled entities (collectively herein the “Group”) is engaged in garment manufacturing and trading, branded products distribution, property investment and management, property development and other investing activities.

2. ADOPTION OF NEW/REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new/ revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which become effective for accounting periods beginning on or after 1 January 2005. In 2005, the Group adopted the new HKFRSs except for HKAS 40 “Investment Property” and HKAS Interpretation 21 “Income Taxes-Recovery of Revalued Non-Depreciable Assets” which were early adopted in the 2004. The major changes to the Group’s accounting policies which have material financial effect on the Group are detailed below. The 2004 comparatives have been reclassified/restated as required, in accordance with the relevant requirements.

(a) Financial instruments

Prior to 1 January 2005, derivatives of the Group were not recognised in the financial statements. Following the adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”, all derivatives are stated at fair value. The gain or loss on changes in fair value is recognised generally in the income statement unless the derivative qualifies for hedge accounting. Where a derivative qualifies for hedge accounting and is designated as a cash flow hedge, the effective part and the ineffective part of any unrealised gain or loss on the instrument is recognised directly in hedging reserve and in the income statement respectively. The cumulative gain or loss associated with the effective part of the cash flow hedge recorded in hedging reserve will be recognised in the income statement in the same period or periods during which the gain or loss arising from the hedged transaction is recognised in the income statement.

In prior years, strategic investments held for long-term were classified as investments in securities and were stated at cost less impairment losses. Since 1 January 2005, such investments meet the recognition and measurement requirements under HKAS 32 and 39 as “available-for-sale financial assets” and have been reclassified as strategic investments, and are carried at fair value or cost less impairment loss if their fair value cannot be reliably measured. Gains and losses arising from changes in fair value are recognised in investment revaluation reserve. On the disposal of the investment or when an investment is determined to be impaired, the cumulative gain or loss previously recognised in investment revaluation reserve will be transferred to the income statement.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

(b) Jointly controlled entities

Pursuant to the revised accounting standard HKAS 31 “Investments in Joint Ventures”, the Group’s interests in jointly controlled entities are accounted for using proportionate consolidation. The Group consolidates its share of the jointly controlled entities’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it is attributable to the other ventures. The Group does not recognise its share of profits or losses from the jointly controlled entities the result from the Group’s purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In prior years, these jointly controlled entities were accounted for as associates using the equity method. The change in accounting policy affects the presentation of the Group’s share of results, assets and liabilities in these entities, there is no financial impact to the net assets and results of the Group for the current and prior years.

(c) Leasehold land and land use rights

Following the adoption of HKAS 17 “Leases” and Hong Kong Interpretation 4 “Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases”, leasehold interests in the land and land use rights for own use are reclassified as “leasehold land and land use rights” and amortised over the period of the lease on a straight-line basis. Prepaid land lease is included in properties under development and properties under development for sale, of which the amortisation of prepaid land lease is capitalised as part of the building costs during the development period but charged to the income statement for completed properties.

(d) Share-based payment

In accordance with HKFRS 2 “Share-based Payments”, the fair value of share options and share-based arrangements at grant date are amortised over the relevant vesting period to the income statement. The Group had no unvested share option outstanding at 31 December 2004 and the policy has been applied from 1 January 2005 onwards.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

(e) Effects of changes in accounting policies

Pursuant to HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current and prior periods presented), the Group has applied the new accounting policies retrospectively except for HKAS 32 and HKAS 39 which are applied prospectively in accordance with the transitional provisions. These effects are summarised as follows:

	HKAS 17 HK\$'M	HKAS 32 & 39 HK\$'M	HKFRS 2 HK\$'M	Total HK\$'M
Effects on periods prior to 2004:				
Decrease in amortisation of leasehold land	0.2	–	–	0.2
Increase in retained profits as at 1 January 2004	0.2	–	–	0.2
Effects on 2004:				
Year ended 31 December 2004				
Decrease in amortisation of leasehold land	0.2	–	–	0.2
Increase in interest expenses on leasehold land	(1.4)	–	–	(1.4)
Decrease in net profit for the year ended 31 December 2004	(1.2)	–	–	(1.2)
Decrease in retained profits as at 31 December 2004	(1.0)	–	–	(1.0)
Effects on 1 January 2005:				
Increase in hedging reserve	–	0.3	–	0.3
Increase in investment revaluation reserve	–	48.1	–	48.1
Increase in reserves	–	48.4	–	48.4
Increase in equity attributable to the shareholders of the Company	–	48.4	–	48.4
(Decrease) increase in equity attributable to the shareholders of the Company as at 1 January 2005	(1.0)	48.4	–	47.4

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

(e) Effects of changes in accounting policies (cont'd)

	HKAS 17 HK\$'M	HKAS 32 & 39 HK\$'M	HKFRS 2 HK\$'M	Total HK\$'M
Effects on year ended				
31 December 2005:				
Decrease in amortisation of leasehold land	0.2	–	–	0.2
Recognition of share options and incentives as expenses	–	–	(0.5)	(0.5)
Increase (decrease) in net profit for the year	0.2	–	(0.5)	(0.3)
Increase in hedging reserve	–	2.4	–	2.4
Increase in employee share-based compensation reserve	–	–	0.5	0.5
Net increase in investment revaluation reserve	–	96.0	–	96.0
Increase in reserves for the year	–	98.4	0.5	98.9
Increase in equity attributable to the shareholders of the Company	0.2	98.4	–	98.6

Pursuant to the adoption of HKAS 31, jointly controlled entities are accounted for using proportionate consolidation. Details of the Group's proportionate share of assets, liabilities and results of the jointly controlled entities are set out in note 43 to the financial statements.

Certain new standards, amendments and interpretations to existing accounting standards have been issued that are relevant to the Group's businesses and are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods. The Group has not adopted these new standards, amendments and interpretations for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with HKFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale investments which are carried at fair value. The significant accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and the proportionate share of its jointly controlled entities made up to 31 December each year.

(i) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries and jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the balance sheet comprise the outside shareholders' proportion of the net assets of subsidiary companies. The group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Consolidation (cont'd)

(ii) *Jointly controlled entities*

Jointly controlled entities are joint venture in which the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. The Group accounts for its jointly controlled entities in accordance with the policy sets out in note 2(b).

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(iii) *Associates*

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sales.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

(e) Other properties, plant and equipment

Other properties, plant and equipment (other than construction in progress) are stated at cost less depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Other properties, plant and equipment (cont'd)

Freehold land with unlimited useful life is not depreciated. Depreciation of other property, plant and equipment, other than construction in progress is calculated using the straight-line method to allocate the cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	2% – 4% per annum
Furniture, fixtures and equipment	10% – 33 ¹ / ₃ % per annum
Motor vehicles	20% – 30% per annum
Plant and machinery	7 ¹ / ₂ % – 35% per annum

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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(f) Leasehold land and land use rights

The accounting policy of leasehold land and land use rights are set out in note 2(c).

(g) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are carried at fair value and are valued at least annually by independent valuers. The valuations are performed in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors and are on an open market basis, related to individual properties, and separate values are not attributed to land and buildings. Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value. Changes in fair values are recognised in the income statement continues to be measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If any investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purpose. Property that is being constructed or developed for future use as investment property is classified as construction in progress or properties under development and stated at cost until construction or development is completed, at which time it is reclassified and subsequently accounted for as investment property.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Properties under development

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

(i) Impairment of assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(j) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Investments (cont'd)

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Trade and other receivables

Trade and other receivables in the balance sheet are stated net of such provision. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

(p) Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) 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.

(r) Share-based payment

The Group operates two equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options or incentive shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or incentive shares granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable and share incentives become effective. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(t) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (i) Sales of goods are recognised when the goods are delivered and title has been passed.
- (ii) Income from properties developed for sale is recognised when the significant risks and rewards of the properties are transferred to the buyers and the collectibility of related receivables is reasonably assured. Payments received from purchasers prior to this stage are recorded as deposits received, which are included in current liabilities.
- (iii) Service revenue is recognised when the services are rendered.
- (iv) Rental income, including rental invoiced in advance under operating leases, is recognised on a straight-line basis over the period of the leases.
- (v) Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.
- (vi) Income from investments is recognised when the Group's right to receive payment has been established.

(u) Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks such as currency risk, price risk, credit risk, liquidity risk and interest-rate risk. The Group's overall risk management seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group use forward contracts. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in the United Kingdom is managed primarily through borrowings denominated in the relevant foreign currencies.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. The Group is not exposed to commodity price risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history and use of letter of credit as appropriate.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Financial risk factors (cont'd)

(v) *Interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

(b) Accounting for derivative financial instruments and hedging activities

Beginning 1 January 2005, derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 25. Movements on the hedging reserve in shareholders' equity are shown in note 33.

(i) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are taken to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

4. FINANCIAL RISK MANAGEMENT (cont'd)

(b) Accounting for derivative financial instruments and hedging activities (cont'd)

(ii) Cash flow hedge (cont'd)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(c) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated fair value of investment properties

Savills Valuation and Professional Services Limited ("Savills") were engaged to carry out an independent valuation of the Group's investment property portfolio as at 31 December 2005. This valuation was carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion".

Savills has derived the valuation of the Group's investment property portfolio by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential and determined using discounted cash flow valuation technique. The assumptions are based on market conditions existing at the balance sheet date.

Management has reviewed the Savills valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the Savills Valuation of the Group's investment property portfolio is reasonable.

(b) Critical judgements in applying the entity's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group financial statements account for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

6. TURNOVER

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

	2005 HK\$'M	2004 HK\$'M
Sales of goods	1,301.7	1,321.6
Property development	375.4	61.5
Rental and property management income	67.8	58.4
Income from investing activities (Note)	23.0	14.3
	<u>1,767.9</u>	<u>1,455.8</u>

Note:

Income from investing activities comprises:

	2005 HK\$'M	2004 HK\$'M
Dividend income from strategic investments	10.1	6.7
Interest income from associates	8.2	2.4
Interest income from minority shareholders	3.5	–
Other income	1.2	5.2
	<u>23.0</u>	<u>14.3</u>

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

The Group is currently organised into five operating divisions – garment manufacturing and trading, branded products distribution, property development, property investment and management 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 development	–	Residential development carried out by the Group
Property investment and management	–	Property investment and management and hospitality management services
Investing activities	–	Investments in securities and the underlying businesses of which are property investment and development, communications and others

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property investment and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Elimination HK\$'M	Consolidated HK\$'M
For the year ended							
31 December 2005							
TURNOVER							
External sales	1,066.1	235.6	67.8	375.4	23.0	–	1,767.9
Inter-segment sales	–	–	13.3	–	–	(13.3)	–
Total	<u>1,066.1</u>	<u>235.6</u>	<u>81.1</u>	<u>375.4</u>	<u>23.0</u>	<u>(13.3)</u>	<u>1,767.9</u>
RESULTS							
Segment results before change in fair value of investment properties and gain on disposals of strategic investment	(21.0)	4.1	20.8	209.0	19.1	–	232.0
Change in fair value of investment properties	–	–	276.1	–	–	–	276.1
Gain on disposal of strategic investments	–	–	–	–	67.1	–	67.1
Segment results	<u>(21.0)</u>	<u>4.1</u>	<u>296.9</u>	<u>209.0</u>	<u>86.2</u>	<u>–</u>	<u>575.2</u>
Unallocated corporate expenses							<u>(45.9)</u>
Profit from operations							529.3
Finance charges							(24.4)
Finance income							6.0
Share of results of associates	–	–	–	14.5	(1.4)	–	<u>13.1</u>
Profit before taxation							524.0
Taxation							<u>(89.6)</u>
Profit for the year							<u>434.4</u>

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

	Garment manufacturing and trading	Branded products distribution	Property investment and management	Property development	Investing activities	Elimination	Consolidated (As restated)
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	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	1,107.6	214.0	64.9	61.5	14.3	(6.5)	1,455.8
RESULTS							
Segment results before change in fair value of investment properties	15.6	(1.1)	9.2	38.2	4.9	–	66.8
Change in fair value of investment properties	–	–	39.9	–	–	–	39.9
Segment results	15.6	(1.1)	49.1	38.2	4.9	–	106.7
Unallocated corporate expenses							(49.3)
Profit from operations							57.4
Finance charges							(19.4)
Finance income							1.1
Share of results of associates	–	–	–	61.2	(0.1)	–	61.1
Gain on disposal of an associate							7.6
Profit before taxation							107.8
Taxation							(10.0)
Profit for the year							97.8

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

	Garment manufacturing and trading HK\$'M	Branded products distribution HK\$'M	Property investment and management HK\$'M	Property development HK\$'M	Investing activities HK\$'M	Consolidated HK\$'M
At 31 December 2005						
ASSETS						
Segment assets	337.2	128.8	1,987.0	1,494.6	430.8	4,378.4
Interest in associates	–	–	–	204.5	(5.0)	199.5
Unallocated corporate assets						190.4
Consolidated total assets						<u>4,768.3</u>
LIABILITIES						
Segment liabilities	130.5	61.6	68.3	1,012.0	10.8	1,283.2
Unallocated corporate liabilities						1,501.0
Consolidated total liabilities						<u>2,784.2</u>
OTHER INFORMATION						
Capital expenditure	29.5	7.1	734.5	266.5	1.6	1,039.2
Depreciation and amortisation						
– Business segment	10.6	6.7	10.6	2.6	1.2	31.7
– Unallocated corporate items						0.2
Impairment losses recognised in respect of strategic investments	–	–	–	–	2.0	2.0
Loss on disposal of other properties, plant and equipment	1.2	–	–	–	–	1.2

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

Business segment (cont'd)

	Garment manufacturing and trading	Branded products distribution	Property investment and management	Property development	Investing activities	Consolidated (As restated)
	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M
At 31 December 2004						
ASSETS						
Segment assets	362.4	131.3	986.9	770.4	439.6	2,690.6
Interest in associates	–	–	–	169.4	(3.6)	165.8
Unallocated corporate assets						180.0
Consolidated total assets						<u>3,036.4</u>
LIABILITIES						
Segment liabilities	146.3	56.5	25.1	495.9	7.2	731.0
Unallocated corporate liabilities						879.7
Consolidated total liabilities						<u>1,610.7</u>
OTHER INFORMATION						
Capital expenditure	29.3	0.3	30.3	–	2.0	61.9
Depreciation and amortisation						
– Business segment	11.8	7.6	8.3	–	1.2	28.9
– Unallocated corporate items						0.2
Reversal of impairment losses recognised in respect of strategic investments	–	–	–	–	7.5	7.5
Loss on disposal of other properties, plant and equipment	0.1	–	–	–	–	0.1

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

7. 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	
	2005 HK\$'M	2004 HK\$'M
North America	746.2	853.0
Hong Kong	423.8	138.5
United Kingdom	310.0	262.0
Other European countries	143.1	119.7
Other areas	144.8	82.6
	1,767.9	1,455.8

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 and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of consolidated total assets At 31 December		Additions to property, plant and equipment and intangible assets For the year ended 31 December	
	2005 HK\$'M	2004 HK\$'M	2005 HK\$'M	2004 HK\$'M
Hong Kong	4,248.9	2,579.0	1,005.3	42.3
PRC	189.8	85.3	26.3	18.8
United Kingdom	240.9	275.6	7.1	0.3
The Netherlands	11.6	16.1	–	0.1
Others	74.4	76.8	0.5	0.4
	4,765.6	3,032.8	1,039.2	61.9
Unallocated assets	2.7	3.6	–	–
	4,768.3	3,036.4	1,039.2	61.9

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

8. PROFIT FROM OPERATIONS

	2005 HK\$'M	2004 (As restated) HK\$'M
Profit from operations has been arrived at after charging:		
Staff costs including directors' remuneration (notes (a) and 9)	222.7	225.2
Retirement benefits costs, net of negligible forfeited contributions	3.3	4.6
Total staff costs	226.0	229.8
Auditors' remuneration		
– current year	3.1	2.8
– underprovision in prior year	0.3	–
Amortisation of		
– permanent textile quota entitlements (included in cost of sales)	–	0.4
– trademark (included in administrative expenses)	0.1	0.1
Cost of temporary textile quota entitlements written off on purchase	1.1	10.6
Cost of inventories included in cost of sales	837.5	837.1
Depreciation and amortisation		
– leasehold land and land use rights	7.2	4.7
– other properties, plant and equipment	24.6	23.9
Loss on disposal of other properties, plant and equipment	1.2	0.1
Direct operating expenses arising from investment properties that generate rental income	1.8	1.6
And after crediting:		
Other operating income		
Quota income	–	24.5
Discounts, claims and commission received from suppliers	7.0	8.3
Revenue from forfeiture of deposits in respect of properties sales	2.0	–

Note:

- (a) Compensation expenses recognised in the income statement in respect of share options and incentive shares granted to certain directors and employees are not included in the total staff costs above. Details of which are set out in note 32.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration

	2005 HK\$'M	2004 HK\$'M
Directors' fees	0.7	0.6
Other directors' emoluments		
– Salaries and allowances	10.6	8.4
– Discretionary bonuses	2.9	2.1
– Retirement benefit costs	0.6	0.5
	14.8	11.6

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

Directors' remuneration (cont'd)

Details of remuneration of directors during the year are as follows:–

Name	Director's fees HK\$'000	Salary and Discretionary allowances HK\$'000	bonuses HK\$'000	Retirement benefit costs HK\$'000	2005 Total HK\$'000	2004 Total HK\$'000
Executive Directors						
Cheng Wai Chee, Christopher	25	1,980	–	99	2,104	1,065
Cheng Wai Sun, Edward	25	4,429	1,700	204	6,358	4,484
Cheng Man Piu, Francis	25	–	–	–	25	25
Ng Tak Wai, Frederick	25	2,272	240	209	2,746	2,864
Au Hing Lun, Dennis	25	1,957	900	90	2,972	2,710
Non-Executive Directors						
Cheng Wai Keung	25	–	–	–	25	25
Kwok Ping Luen, Raymond	25	–	–	–	25	25
Wong Yick Kam, Michael	25	–	–	–	25	25
Hong Pak Cheung, William	25	–	–	–	25	25
Independent Non-executive Directors						
Simon Murray	160	–	–	–	160	160
Fang Hung, Kenneth	160	–	–	–	160	160
Yeung Kit Shing, Jackson	160	–	–	–	160	47
Total	705	10,638	2,840	602	14,785	11,615

Share options and incentive shares have also been granted and awarded to certain directors. The fair values of these share options and incentive shares recognised in the income statement for the year are set out in note 32.

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.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (cont'd)

Five highest paid individuals

The aggregate emoluments of the five highest paid individuals of the Group in 2005 included four (2004: three) executive directors of the Company whose emoluments are included above. The aggregate emoluments of the remaining one (2004: two) highest paid individuals are as follows:

	2005 HK\$'M	2004 HK\$'M
Salaries and allowances	1.1	2.0
Discretionary bonuses	0.4	1.0
Retirement benefit costs	0.1	0.1
	<u>1.6</u>	<u>3.1</u>

Their emoluments were within the following bands:

	2005 Number of employees	2004 Number of employees
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>2</u>

10. NET FINANCE CHARGES

	2005 HK\$'M	2004 (As restated) HK\$'M
Finance charges		
Interest on:		
– bank and other borrowings wholly repayable within five years	37.0	17.6
– bank and other borrowings not wholly repayable within five years	<u>9.1</u>	<u>3.2</u>
Total borrowing costs	46.1	20.8
Less: Interest capitalised in properties under development	<u>(21.7)</u>	<u>(1.4)</u>
	24.4	19.4
Finance income – bank interest income	<u>(6.0)</u>	<u>(1.1)</u>
Net borrowing costs	<u>18.4</u>	<u>18.3</u>

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

11. TAXATION

	2005 HK\$'M	2004 HK\$'M
The charge comprises:		
Taxation of the Company, its subsidiaries and jointly controlled entities		
– Hong Kong profits tax	39.7	3.1
– Taxation in other jurisdictions	0.2	0.6
	<u>39.9</u>	<u>3.7</u>
Overprovision in prior years		
– Hong Kong profits tax	–	(0.9)
Deferred taxation relating to origination and reversal of temporary differences (note 30)	49.7	7.2
	<u>89.6</u>	<u>10.0</u>

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The tax on the Group's profit before tax differs from the theoretical amount would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2005 HK\$'M	2004 (As restated) HK\$'M
Profit before taxation	<u>524.0</u>	<u>107.8</u>
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	91.7	18.9
Expenses not deductible in determining taxable profit	3.8	6.5
Income not taxable in determining taxable profit	(16.3)	(11.9)
Tax effect of tax losses not recognised	10.2	14.0
Utilisation of tax losses not previously recognised	(3.7)	(6.6)
Tax effect of unrecognised deductible temporary differences	7.5	(4.1)
Effect of different tax rates of subsidiaries operating on other jurisdictions	(1.6)	(0.8)
Overprovision in prior years	–	(0.9)
Tax effect of share of results of associates	(2.3)	(10.7)
Others	0.3	5.6
	<u>89.6</u>	<u>10.0</u>
Taxation for the year		

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

12. DIVIDENDS

	2005 HK\$'M	2004 HK\$'M
Interim dividend paid on 14 October 2005 of HK1.5 cent (2004: nil) per share	7.9	–
Final proposed of HK5.5 cents (2004: HK1.75 cent) per share	28.9	9.2
	<u>36.8</u>	<u>9.2</u>

The final proposed dividend is not accounted for until it has been approved at the forthcoming annual general meeting of the Company. The amount will be accounted for as an appropriation of the reserve in the year ending 31 December 2006.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for profit attributable to the shareholders of the Company is based on the following data:

	2005 HK\$'M	2004 (As restated) HK\$'M
Profit attributable to the shareholders of the Company for the purposes of calculating basic and diluted earnings per share	<u>368.5</u>	<u>92.1</u>
Number of shares in issue		
Weighted average number of shares for the purposes of calculating basic earnings per share	526,255,339	518,820,462
Effect of dilutive potential shares issuable under the Company's share option and share incentive schemes	<u>631,451</u>	<u>1,737,245</u>
Weighted average number of shares for the purposes of calculating diluted earnings per share	<u>526,886,790</u>	<u>520,557,707</u>

The Group's earnings for the year attributable to the shareholders of the Company is HK\$368.5 million, which includes change in fair value of investment properties (net of minority interests and deferred taxation) of HK\$153.1 million. The Group's earnings for the year attributable to the shareholders of the Company after exclusion of the net valuation gain mentioned above is HK\$215.4 million which is equivalent to HK40.9 cents per share on both a basic and a fully diluted basis.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

14. LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
At 1 January	235.9	228.5
Adjustment of other property revaluation reserve in respect of leasehold land	(6.0)	–
Additions during the years	735.0	2.2
Transfer (to) from investment properties (note 15)	(177.3)	9.9
Amortisation	(7.2)	(4.7)
At 31 December	780.4	235.9

The Group's interests in leasehold land and land use rights represent prepaid lease payments and their net book value are analysed as follows:

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
In Hong Kong, held on:		
Leases of over 50 years	760.8	28.7
Leases of between 10 to 50 years	10.3	197.7
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	9.3	9.5
	780.4	235.9

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

15. INVESTMENT PROPERTIES

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
At 1 January	541.6	559.2
Increase in fair value	276.1	39.9
Transfer from (to) leasehold land (note 14)	177.3	(9.9)
Transfer from properties under development (note 16)	316.6	–
Transfer to leasehold buildings (note 17)	–	(47.6)
At 31 December	1,311.6	541.6

Investment properties represents properties in Hong Kong held on lease of between 10 to 50 years.

The Group's investment properties were valued on an open market value basis as at 31 December 2005 by Savills Valuation and Professional Services Limited, a firm of independent professional property valuers. Valuations were based on current prices in an active market for all properties.

16. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2005	2004
	HK\$'M	(As restated) HK\$'M
At 1 January	144.6	118.4
Additions during the year	261.5	26.2
Transfer to investment properties (note 15)	(316.6)	–
At 31 December	89.5	144.6
Properties under development comprise:		
Properties in Hong Kong, held on:		
Leases of over 50 years	89.5	–
Leases of between 10 to 50 years	–	144.6
At 31 December	89.5	144.6

Included in properties under development is interest capitalised of HK\$21.7 million (2004: HK\$1.4 million).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

17. OTHER PROPERTIES, PLANT AND EQUIPMENT

	Freehold properties HK\$'M (Note a)	Leasehold buildings HK\$'M (Note b)	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							
At 1 January 2005	65.8	172.8	20.4	169.6	8.0	77.5	514.1
Currency realignment	(6.3)	(1.9)	–	(8.8)	–	(0.1)	(17.1)
Transfer	–	19.0	(23.5)	1.7	0.1	2.7	–
Additions	–	10.2	3.1	17.4	3.3	8.5	42.5
Disposals	–	–	–	(9.8)	(2.1)	(1.1)	(13.0)
At 31 December 2005	59.5	200.1	–	170.1	9.3	87.5	526.5
Comprising:							
At cost	59.5	143.2	–	170.1	9.3	87.5	469.6
At 1994 valuation (note c)	–	56.9	–	–	–	–	56.9
	59.5	200.1	–	170.1	9.3	87.5	526.5
DEPRECIATION							
At 1 January 2005	–	33.3	–	130.7	6.1	65.8	235.9
Currency realignment	–	(1.7)	–	(7.6)	–	(0.1)	(9.4)
Provided for the year	–	5.2	–	13.6	1.6	4.2	24.6
Disposals	–	–	–	(9.1)	(2.1)	(0.6)	(11.8)
At 31 December 2005	–	36.8	–	127.6	5.6	69.3	239.3
NET BOOK VALUES							
At 31 December 2005	59.5	163.3	–	42.5	3.7	18.2	287.2
At 31 December 2004	65.8	139.5	20.4	38.9	1.9	11.7	278.2

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

	Freehold properties HK\$'M (Note a)	Leasehold buildings HK\$'M (Note b)	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							
At 1 January 2004	61.3	123.9	7.7	151.6	8.2	73.6	426.3
Currency realignment	4.5	1.3	–	6.0	–	–	11.8
Transfer from investment properties (note 15)	–	47.6	–	–	–	–	47.6
Additions	–	–	12.7	14.1	1.2	5.5	33.5
Disposals	–	–	–	(2.1)	(1.4)	(1.6)	(5.1)
At 31 December 2004	65.8	172.8	20.4	169.6	8.0	77.5	514.1
Comprising:							
At cost	65.8	115.9	20.4	169.6	8.0	77.5	457.2
At 1994 valuation (note c)	–	56.9	–	–	–	–	56.9
	65.8	172.8	20.4	169.6	8.0	77.5	514.1
DEPRECIATION							
At 1 January 2004	–	27.1	–	115.9	6.1	61.6	210.7
Currency realignment	–	1.0	–	4.6	–	–	5.6
Provided for the year	–	5.2	–	12.0	1.4	5.3	23.9
Disposals	–	–	–	(1.8)	(1.4)	(1.1)	(4.3)
At 31 December 2004	–	33.3	–	130.7	6.1	65.8	235.9
NET BOOK VALUES							
At 31 December 2004	65.8	139.5	20.4	38.9	1.9	11.7	278.2
At 31 December 2003	61.3	96.8	7.7	35.7	2.1	12.0	215.6

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

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

Notes

(a) The Group's freehold properties represent properties outside Hong Kong.

(b)

	THE GROUP	
	2005	2004
	HK\$'M	(As restated) HK\$'M
The net book value of the Group's leasehold buildings comprises:		
Properties held on leases of over 50 years in Hong Kong	9.0	9.2
Properties held on leases of between 10 to 50 years		
– in Hong Kong	87.2	90.0
– outside Hong Kong	65.6	37.6
Properties held on leases of less than 10 years outside Hong Kong	1.5	2.7
	163.3	139.5

(c) The Group applies the transitional provision under Paragraph 80A of HKAS 16 "Property, Plant and Equipment", of which leasehold buildings stated at 1994 valuation are not required to make regular revaluations.

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK\$'M	HK\$'M
Unlisted shares, at cost	590.8	590.8
Less: provision for impairment	(66.1)	(66.1)
	524.7	524.7
Amounts due from subsidiaries	658.1	669.3
	1,182.8	1,194.0

Details of the Company's principal subsidiaries at 31 December 2005 are set out in note 41.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
Share of net assets (note b)	62.7	6.9
Advances to associates (note c)	136.8	158.9
	199.5	165.8

Details of the Group's principal associates at 31 December 2005 are set out in note 42.

Notes:

- (a) The share of post acquisition reserves of associates in 2004 included an amount of HK\$1.8 million (2005: nil) which was provided for in 2000 as impairment losses recognised in respect of associates engaged in property development.
- (b) The summary of financial information of the Group's share of the principal associates is as follows:

	2005	2004
	HK\$'M	HK\$'M
Results for the year ended 31 December:		
Turnover	154.5	47.0
Net profit	13.1	61.1
Financial position at 31 December:		
Non-current assets	312.5	295.4
Current assets	86.0	102.7
Current liabilities	(32.8)	(43.8)
Non-current liabilities	(303.0)	(347.4)
Net assets	62.7	6.9

- (c) The advances are unsecured. Other than an aggregate amount of HK\$136.8 million (2004: HK\$56.2 million) which carries interest at market rates, the remaining balance is interest free. There are no fixed repayment terms.
- (d) The amounts due from associated companies repayable on demand are analysed as follows:

	2005	2004
	HK\$'M	HK\$'M
Interest-bearing amounts	5.6	4.7
Interest-free amounts	3.7	3.7
Total	9.3	8.4

- (e) The amount due to an associate company is interest-free and repayable on demand.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

20. STRATEGIC INVESTMENTS

	THE GROUP	
	2005	2004
	HK\$'M	(As restated) HK\$'M
Listed securities (note a)		
– Equity securities – Hong Kong	323.4	370.4
– Equity securities – United Kingdom	7.9	10.7
– Equity securities – Singapore	0.3	–
	331.6	381.1
Other investments (note b)	86.8	49.2
	418.4	430.3

Notes:

- (a) At 31 December 2005, the listed shares mainly comprise the Group's minority stakes in Winsor Properties Holdings Limited ("Winsor") and UBC Media Group Plc ("UBC").

Winsor is engaged in property investment and its shares are listed 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.

At 31 December 2004, the Group has strategic investments HK\$199.5 million in SUNDAY Communications Limited which was disposed of at a cash consideration of approximately HK\$266.6 million, resulting in a gain of approximately HK\$67.1 million.

- (b) 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\$0.8 million (2004: HK\$7.5 million) was made in the financial statements by reference to the recoverable amounts from these property development projects.

21. OTHER NON-CURRENT ASSETS

	Balance at 1 January 2005 HK\$'M	Addition for the year HK\$'M	Decrease/ amortisation for the year HK\$'M	Balance at 31 December 2005 HK\$'M
THE GROUP				
Mortgage loans receivable (note a)	1.2	–	(1.2)	–
Trademark (note b)	0.4	0.2	(0.1)	0.5
	1.6	0.2	(1.3)	0.5

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

21. OTHER NON-CURRENT ASSETS (cont'd)

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.

22. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
Raw materials	28.4	31.8
Work in progress	57.9	65.4
Finished goods	37.6	36.7
	123.9	133.9

23. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP	
	2005	2004
	HK\$'M	(As restated) HK\$'M
Properties under development for sale comprise:		
Held on leases of between 10 to 50 years in Hong Kong:		
Net book value of leasehold land	293.4	318.2
Development costs	435.0	229.8
Freehold outside Hong Kong:		
Development costs	74.8	118.3
	803.2	666.3

All the properties under development for sale are stated at cost (2004: cost) at the balance sheet date.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	THE GROUP	
	2005	2004
	HK\$'M	(As restated)
		HK\$'M
Trade receivables	399.9	87.8
Less: provision for impairment	(16.3)	(11.5)
Trade receivables – net of provision	383.6	76.3
Other receivables and prepayments	77.3	39.7
	460.9	116.0

The carrying values of net trade and other receivables and prepayments approximate their fair values.

The Group allows different credit periods to its trade customers. Credit periods 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	
	2005	2004
	HK\$'M	(As restated)
		HK\$'M
0 – 30 days	76.6	28.6
31 – 90 days	286.2	21.4
Over 90 days	20.8	26.3
	383.6	76.3

25. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
Interest-rate swaps	2.6	–
Forward foreign exchange contracts	0.1	–
	2.7	–

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

26. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
Trade payables	100.6	92.8
Other payables	264.9	165.9
	365.5	258.7

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

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
0 – 30 days	67.2	65.9
31 – 90 days	21.3	14.4
Over 90 days	12.1	12.5
	100.6	92.8

The carrying values of trade and other payables approximate their fair values.

27. SHORT-TERM BANK BORROWINGS AND OVERDRAFTS

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
Trust receipts and import loans	4.1	2.8
Bank overdrafts	0.2	0.5
	4.3	3.3

Trust receipts and import loans are secured by related inventories.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

28. BANK LOANS

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

	THE GROUP	
	2005	2004
	HK\$'M	(As restated)
		HK\$'M
Within one year	310.5	448.4
Between one to two years	333.9	90.9
Between two to five years	410.5	368.2
After five years	33.4	241.3
	1,088.3	1,148.8
Less: Amount due within one year shown under current liabilities	(310.5)	(448.4)
Amount due after one year	777.8	700.4
Analysed as		
– secured	787.4	847.3
– unsecured	300.9	301.5
	1,088.3	1,148.8

The carrying values of bank loans approximate their fair values.

29. OTHER LONG-TERM LOANS

	THE GROUP	
	2005	2004
	HK\$'M	(As restated)
		HK\$'M
Interest bearing loans	267.9	35.2
Interest free loans	11.6	17.3
	279.5	52.5

The loans are from minority shareholders of certain 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\$275.8 million (2004: HK\$35.2 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.

The carrying values of other long-term loans approximate their fair values.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

30. 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 2004	18.0	3.8	(3.1)	18.7
Charged (credited) to income for the year (note 11)	7.4	–	(0.2)	7.2
At 31 December 2004 and 1 January 2005	25.4	3.8	(3.3)	25.9
Charged (credited) to income for the year (note 11)	52.8	(1.7)	(1.4)	49.7
At 31 December 2005	78.2	2.1	(4.7)	75.6
			2005 HK\$'M	2004 HK\$'M
Deferred tax liabilities			80.3	29.2
Deferred tax assets			(4.7)	(3.3)
			75.6	25.9

At 31 December 2005, the Group has unused tax losses of approximately HK\$393.8 million (2004: HK\$347.5 million) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$26.9 million (2004: HK\$18.9 million) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$366.9 million (2004: HK\$328.6 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$38.6 million that will expire until 2010. Other losses may be carried forward indefinitely.

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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

31. SHARE CAPITAL

	Number of shares	Amount HK\$'M
Ordinary shares of HK\$0.50 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	1,320,000,000	660.0
Issued and fully paid:		
At 1 January 2004	517,625,339	258.8
Issue of shares	8,630,000	4.3
At 31 December 2004 and 31 December 2005	526,255,339	263.1

32. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME

(a) Share Option Scheme

Under the Share Option Scheme of the Company adopted on 10 June 2003 ("Share Option Scheme"), the Board of the Company may, at its absolute discretion, grant options to directors and employees of the Group to subscribe for shares of the Company, subject to a maximum of 51,762,534 representing 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 Share Option 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 Hong Kong 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 Hong Kong Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and iii) the nominal value of a share of the Company. The Share Option Scheme will be terminated on 9 June 2013.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

32. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME (cont'd)

(a) Share Option Scheme (cont'd)

Details of the share options granted under the Share Option Scheme during the year are as follows:

Director	Date of grant	Exercise price per share	Number of share options			As at 31.12.2005	Fair value of share options amortised in 2005 HK\$
			As at 1.1.2005	Granted during the year	Exercised during the year		
Simon Murray	19.4.2005	HK\$2.125	-	1,000,000	-	1,000,000	140,000

The share options granted are exercisable during the period from 19 April 2006 to 18 April 2010 and subject to a vesting scale in tranches of 25 per cent per annum starting from the first anniversary of the date of grant. No options were exercised during the year.

The closing price of the shares of the Company quoted on the Stock Exchange on 18 April 2005, being the date immediately before the date on which share options were granted, was HK\$2.125 per share.

(b) Share Incentive Scheme

Under a Share Incentive Scheme approved by the shareholders of the Company on 17 June 2005 ("Share Incentive Scheme"), the Board of Directors of the Company or a duly authorised committee thereof may in its absolute discretion make offer of awards to selected employees (including executive directors) of the Group ("Eligible Employees") to subscribe in cash at par for shares of the Company. The maximum number of shares of the Company which may be issued in response to the awards and any other incentive and option schemes of the Company (excluding lapsed awards and options) shall not in aggregate exceed 52,625,533 representing 10% of the issued share capital of the Company as at 17 June 2005.

The Share Incentive Scheme is a long-term incentive arrangement for the Eligible Employees, the purpose of which is to recognise, motivate and provide incentives to those who make contribution to the Group, to help the Group retain its existing employees and recruit additional employees who will be valuable to the Group to provide existing and future employees with director economic interests in the long-term development and growth of the Group.

Offer of awards must be accepted within 28 days from the date of offer. The subscription price for each share which is the subject of an award shall be an amount equal to its nominal value. Each subscription under the Share Incentive Scheme shall be in cash at the subscription price. The Company will provide to the Eligible Employees the funds required to subscribe for the shares issued under the Share Incentive Scheme. The Share Incentive Scheme will be terminated on 16 June 2015.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

32. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME (cont'd)

(b) Share Incentive Scheme (cont'd)

Details of the incentive shares awarded pursuant to the Share Incentive Scheme during the year are as follows:

	Date of award	Number of incentive shares				Fair value of incentive shares amortised in 2005 HK\$
		As at 1.1.2005	Awarded during the year	Vested during the year	As at 31.12.2005	
Directors						
Cheng Wai Chee, Christopher	13.9.2005	-	600,000	-	600,000	130,000
Cheng Wai Sun, Edward	13.9.2005	-	600,000	-	600,000	130,000
Ng Tak Wai, Frederick	13.9.2005	-	90,000	-	90,000	19,500
Au Hing Lun, Dennis	13.9.2005	-	150,000	-	150,000	32,500
		-	1,440,000	-	1,440,000	312,000
Employees	13.9.2005	-	225,000	-	225,000	48,000
		-	1,665,000	-	1,665,000	360,000

The vesting period of the incentive shares awarded is from 13 September 2006 to 12 September 2009. The incentive shares awarded are subject to a vesting scale in tranches of 25 per cent per annum starting from the first anniversary and fully vested from the third anniversary of the date of award. All the incentive shares awarded shall be valid for ten years until the day before the tenth anniversary of the date of award.

The subscription price per incentive share shall be the nominal value of the shares of the Company. Fund for subscription of incentive shares will be provided by the Company at a time of the exercise of right to subscribe for shares of the Company.

At the date of award, 13 September 2005, the closing price of the shares of the Company as quoted on the Stock Exchange was HK\$2.725 per share.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

32. SHARE OPTION SCHEME/SHARE INCENTIVE SCHEME (cont'd)

(c) Fair values of share options granted and incentive shares awarded

The fair values of share options and incentive shares granted during the year ended 31 December 2005 are determined using the Binomial Option Pricing Model (the "Model"). Key assumptions of the Model are:

	Share Option Scheme	Share Incentive Scheme
Risk-free rate:	3%	4%
Expected dividend yield:	2%	2%
Expected volatility of the market price of the Company's shares:	48%	52%
Expected life (in years):	5 years from the date of grant	10 years from the date of grant

The Model requires the input of subjective assumptions including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options and incentive shares.

The fair values of share options and incentive shares granted during the year ended 31 December 2005 determined using the Model were HK\$582,000 and HK\$3,393,000 respectively. Of which, the attributable amounts recognised in the 2005 income statement (as disclosed in note 32(a) and (b)) are HK\$140,000 and HK\$360,000 respectively.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

33. RESERVES

	Share premium HK\$'M	Hedging reserve HK\$'M	Investment revaluation reserve HK\$'M	Employee share-based compensation 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 2004									
– as previously reported	438.4	–	–	–	18.1	(21.7)	631.8	(66.9)	999.7
– adjustment on adoption of new/revised HKFRSs	–	–	–	–	–	–	–	0.2	0.2
– as restated	438.4	–	–	–	18.1	(21.7)	631.8	(66.7)	999.9
Issue of shares on exercise of share options	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	–	–	–	–	–	–	–	92.1	92.1
At 31 December 2004	441.0	–	–	–	18.1	(10.3)	626.6	25.4	1,100.8
At 1 January 2005									
– as previously reported	441.0	–	–	–	18.1	(10.3)	626.6	25.4	1,100.8
– adjustment on adoption of new/revised HKFRSs	–	0.3	–	–	–	–	–	48.1	48.4
– as restated	441.0	0.3	–	–	18.1	(10.3)	626.6	73.5	1,149.2
Transfer	–	–	48.1	–	–	–	–	(48.1)	–
Realised on disposal	–	–	(67.1)	–	–	–	–	–	(67.1)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	–	(0.2)	–	–	(0.2)
Surplus arising on revaluation	–	–	163.1	–	–	–	–	–	163.1
Increase in hedging reserve	–	2.4	–	–	–	–	–	–	2.4
Adjustment of other property revaluation reserve in respect of leasehold land	–	–	–	–	(6.0)	–	–	–	(6.0)
Share of reserves by minority shareholders	–	–	–	–	–	0.2	–	–	0.2
Share options granted	–	–	–	0.5	–	–	–	–	0.5
2004 final dividend paid	–	–	–	–	–	–	(9.2)	–	(9.2)
2005 interim dividend paid	–	–	–	–	–	–	(7.9)	–	(7.9)
Net profit for the year	–	–	–	–	–	–	–	368.5	368.5
At 31 December 2005	441.0	2.7	144.1	0.5	12.1	(10.3)	609.5	393.9	1,593.5
Attributable to associates:									
At 31 December 2005	–	–	–	–	–	–	–	19.4	19.4
At 31 December 2004	–	–	–	–	–	–	–	6.3	6.3

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

33. RESERVES (cont'd)

	Share premium HK\$'M	Contributed surplus HK\$'M	Other distributable deficit HK\$'M	Total HK\$'M
THE COMPANY				
At 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 and 1 January 2005	441.0	611.7	(112.1)	940.6
2004 final dividend paid	–	(9.2)	–	(9.2)
2005 interim dividend paid	–	(7.9)	–	(7.9)
Net loss for the year	–	–	(4.3)	(4.3)
At 31 December 2005	441.0	594.6	(116.4)	919.2

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.

The contributed surplus of the Group and the Company includes the proposed final dividend for the year of HK\$28.9 million (2004: HK\$9.2 million) (note 12).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

34. OPERATING LEASE

THE GROUP AS LESSEE

	2005 HK\$'M	2004 HK\$'M
Minimum lease payments charged to the consolidated income statement during the year:		
– land and buildings	20.4	18.1
– equipment and motor vehicles	0.7	0.7
	<u>21.1</u>	<u>18.8</u>

Under the leases entered into by the Group, the lease payments are fixed and predetermined. At 31 December 2005, future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2005 HK\$'M	2004 HK\$'M
For land and buildings		
– Within one year	20.0	22.1
– After one year and not later than five years	53.3	69.5
– Over five years	24.0	9.7
	<u>97.3</u>	<u>101.3</u>
For equipment and motor vehicles		
– Within one year	0.4	0.7
– After one year and not later than five years	0.2	0.5
	<u>0.6</u>	<u>1.2</u>
Total	<u>97.9</u>	<u>102.5</u>

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

THE GROUP AS LESSOR

	2005 HK\$'M	2004 HK\$'M
Gross rental income credited to the income statement during the year	43.8	41.4
Less: Outgoings	<u>(1.8)</u>	<u>(1.6)</u>
	<u>42.0</u>	<u>39.8</u>

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

34. OPERATING LEASE (cont'd)

The Group's investment properties are held for rental purposes. Rental 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 rental receivable by the Group is as follows:

	2005 HK\$'M	2004 HK\$'M
Within one year	29.5	24.3
After one year and not later than five years	11.7	11.3
	41.2	35.6

35. CAPITAL COMMITMENTS

	THE GROUP 2005 HK\$'M	2004 HK\$'M
Capital expenditure in respect of properties under development		
– contracted for but not provided in the financial statements	48.1	106.7
– authorised but not contracted for	0.6	–
Capital expenditure in respect of acquisition of other properties, plant and equipment		
– contracted for but not provided in the financial statements	9.3	11.5
– authorised but not contracted for	1.1	6.4
	59.1	124.6

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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

36. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'M	HK\$'M	HK\$'M	HK\$'M
Guarantees given to banks in respect of utilised credit facilities extended to				
– subsidiaries	–	–	582.1	489.3
– jointly controlled entities	–	–	176.7	301.2
	–	–	758.8	790.5
Other guarantees given to banks	1.6	1.9	–	–
	1.6	1.9	758.8	790.5

At 31 December 2005, the Company's share of several and proportionate guarantees in respect of unutilised credit facilities granted to jointly controlled entities engaged in property development amounted to HK\$407.8 million (2004: HK\$260.8 million).

37. PLEDGE OF ASSETS

The Group's advances to associates/jointly controlled entities at 31 December 2005 include amounts of HK\$162.3 million (2004: HK\$348.8 million) which are subordinated to the loans facilities of associates/jointly controlled entities. The associates/jointly controlled entities are engaged in property development. The Group's advances to the associates/jointly controlled entities include amounts of HK\$128.7 million (2004: HK\$323.4 million) which are assigned, and the shares in these associates/jointly controlled entities beneficially owned by the Group are pledged to the financial institutions.

At 31 December 2005, certain of the Group's investment properties, freehold properties, leasehold land, leasehold building and properties under development with carrying value of HK\$1,308.0 million (2004: HK\$539.0 million), HK\$59.5 million (2004: HK\$65.8 million), HK\$298.4 million (2004: HK\$226.5 million), HK\$96.2 million (2004: HK\$99.1 million) and HK\$4.5 million (2004: HK\$144.6 million) respectively were pledged to secure credit facilities for the Group.

In addition to the above, HK\$802.9 million (2004: HK\$655.0 million) of properties under development for sale included in the consolidated balance sheet of the Group represents the Group's proportionate share in jointly controlled entities which are pledged as security for bank facilities extended to the jointly controlled entities.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

38. 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% (2004: 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 2005 by Mr. Nigel P. Hacking, Fellow of the Institute of Actuaries, of Barnett Waddingham and was updated to 31 December 2005 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:

	2005	2004
Discount rate	5.00%	5.50%
Expected return on plan assets	6.40%	6.50%
Expected rate of salary increases	3.75%	3.75%
Future pension increases in respect of service:		
From April 1997 to April 2005	2.50%	2.50%
From May 2005	2.25%	n/a

The actuarial valuation updated to 31 December 2005 showed that the market value of scheme assets was approximately HK\$69.2 million (2004: HK\$64.3 million) and that the actuarial value of these assets represented 91% (2004: 87%) of the benefits that had been accrued to members. The shortfall of approximately HK\$7.2 million (2004: HK\$9.7 million) is to be cleared over the estimated remaining service period of the current membership of 15 years.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

38. 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:

	2005 HK\$'M	2004 HK\$'M
Current service cost	2.1	2.0
Interest cost	3.8	3.6
Expected return on plan assets	(3.9)	(3.7)
Net actuarial loss recognised in the year	0.2	0.3
	<u>2.2</u>	<u>2.2</u>

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

The actual gain on plan assets was approximately HK\$12.0 million (2004: HK\$6.3 million).

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

	2005 HK\$'M	2004 HK\$'M
Fair value of scheme assets	69.2	64.3
Present value of funded obligations	(76.4)	(74.0)
	<u>(7.2)</u>	<u>(9.7)</u>
Unrecognised actuarial losses	8.2	11.1
	<u>1.0</u>	<u>1.4</u>

Movements in the net asset in the current year were as follows:

	2005 HK\$'M	2004 HK\$'M
At 1 January	1.4	1.3
Exchange differences	(0.2)	0.1
Amounts charged to the consolidated income statement	(2.2)	(2.2)
Contributions	2.0	2.2
	<u>1.0</u>	<u>1.4</u>
At 31 December	(1.0)	(1.4)
Restriction on asset recognised	—	—
Net asset recognised at 31 December	<u>—</u>	<u>—</u>

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

39. SIGNIFICANT 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 19, 36 and 37. In addition, the Group has the following significant transactions with related parties during the year.

	THE GROUP	
	2005	2004
	HK\$'M	HK\$'M
Interest income from associates	8.2	2.4
Project management fee income from associates	11.6	4.9
Project management fee income from a subsidiary of the Group's investee company	1.8	0.5
Property rental income from a shareholder of the Company	0.9	0.2

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

40. POST BALANCE SHEET EVENT

Subsequent to year end, the Group entered into a preliminary sale and purchase agreement with a third party to sell an investment property situated in Hong Kong with a carrying value of HK\$86 million at 31 December 2005 for HK\$105 million.

41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2005 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
Certitech Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
Charmax Trading Limited	Hong Kong	HK\$100	91%	Garment trading

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

41. 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
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
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\$4,000,000	86.4%	Property holding and garment manufacturing
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
Flourish City Limited	British Virgin Islands	US\$1	100%	Investment holding

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

41. 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
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
Grandnice Fashion Limited	Hong Kong	HK\$2	86.4%	Garment manufacturing
Grandslam Limited	British Virgin Islands	US\$1	100%	Investment holding
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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

41. 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
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
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
Marvinbond Limited	British Virgin Islands	US\$1	100%	Investment holding

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

41. 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
Mezereum Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Property investment
Pangold Development Limited	Hong Kong	HK\$100	80%	Property Development
Potter Enterprises Limited	British Virgin Islands	US\$1	100%	Investment holding
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	MOP800,000	49%	Garment subcontracting
Shui Pang Garment & Knitting Factory Limited	Hong Kong	HK\$2,000,000	70%	Investment holding and garment manufacturing
Success First Development Limited	Hong Kong	HK\$2	100%	Property investment
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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

41. 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
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
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
Winnion Limited	Hong Kong	HK\$100	70%	Property investment

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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

41. PRINCIPAL SUBSIDIARIES (cont'd)

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 2005 or at any time during the year.

42. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 31 December 2005 are as follows:

Name of company	Place of incorporation	Attributable proportion of nominal value of issued capital held by the Company indirectly	Principal activities
Mission System Consultant Limited	Hong Kong	42.5%	Computer software consultancy
Shanghai Jinlin Tiandi Serviced Apartment Management Co., Ltd.	People's Republic of China	23.4%	Serviced apartment
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.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2005

43. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Details of the Group's principal jointly controlled entities at 31 December 2005 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

The following amounts represent the Group's respective share of the assets and liabilities, sales and results of the jointly controlled entities in aggregate and are included in the consolidated balance sheet and income statement:

	2005 HK\$'M	2004 HK\$'M
Assets:		
Current assets	1,228.8	757.5
Liabilities:		
Current liabilities	(1,269.2)	(533.1)
Net (liabilities) assets	(40.4)	224.4
Revenue	365.7	0.4
Expenses	(158.1)	(2.1)
Taxation	(35.8)	–
Profit (loss) after tax	171.8	(1.7)

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 2005.

	Years ended 31 December				
	2005 HK\$'M (Note a)	2004 HK\$'M (Note b)	2003 HK\$'M	2002 HK\$'M	2001 HK\$'M
RESULTS					
Turnover	1,767.9	1,455.8	1,470.6	1,465.9	1,441.8
Profit before taxation	524.0	107.8	29.1	33.1	72.0
Taxation	(89.6)	(10.0)	(6.3)	(9.1)	(14.4)
Profit for the year	434.4	97.8	22.8	24.0	57.6
Attributable to:					
Shareholders of the Company	368.5	92.1	18.5	20.5	51.9
Minority interests	65.9	5.7	4.3	3.5	5.7
	434.4	97.8	22.8	24.0	57.6
	At 31 December				
	2005 HK\$'M (Note a)	2004 HK\$'M (Note b)	2003 HK\$'M	2002 HK\$'M	2001 HK\$'M
ASSETS AND LIABILITIES					
Total assets	4,768.3	3,036.4	2,711.5	2,380.5	2,279.5
Total liabilities	(2,784.2)	(1,610.7)	(1,395.9)	(1,065.7)	(967.0)
Minority interests	(127.5)	(61.8)	(57.1)	(56.2)	(65.0)
Equity attributable to the shareholders of the Company	1,856.6	1,363.9	1,258.5	1,258.6	1,247.5

Notes:

- The effect of adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" was adjusted to the opening balance of reserves for the year ended 31 December 2005 in accordance with the transitional provisions of HKAS 32 and HKAS 39. The figures prior to 2005 have not been restated to reflect this change.
- The effect of early adoption of HKAS 40 "Investment Property" was adjusted to the opening balance of reserves 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.

Properties Held for Investment Purposes

At 31 December 2005

Address	Gross floor area	Lease term	Effective percentage holding	Particulars of occupancy as at 31 December 2005
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%	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.
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
133 Leighton Road, Causeway Bay, Hong Kong (Inland Lot No. 8774)	114,097 sq.ft. (10,600 sq.m.)	Leased under Conditions of Exchange No. 12159 for a term from 2 September 1991 to 30 June 2047	60%	Rental

Properties Under Development

At 31 December 2005

Address	Nature of property	Gross floor area	Effective percentage holding	Project status	Expected completion date
No. 157 Argyle Street, Kowloon, Hong Kong (Inland Lot No. 4022)	Residential	18,000 sq.ft*	80%	Site preparation	2009
314-324 Hennessy Road, Wanchai, Hong Kong (Inland Lot No. 122)	Commercial	114,000 sq.ft	70%	Renovation in progress	2007

* represents area of the site

DIRECTORS

CHENG Wai Chee, Christopher *GBS JP Chairman*
CHENG Wai Sun, Edward *JP 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*
FANG Hung, Kenneth *GBS JP*
WONG Yick Kam, Michael
HONG Pak Cheung, William
(alternate to WONG Yick Kam, Michael)

REMUNERATION COMMITTEE

CHENG Wai Chee, Christopher *GBS JP Chairman*
CHENG Wai Sun, Edward *JP*
Simon MURRAY CBE
FANG Hung, Kenneth *GBS JP*
YEUNG Kit Shing, Jackson

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

AU Hing Lun, Dennis

AUDITORS

PricewaterhouseCoopers

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
Level 25
Three Pacific Place
1 Queen's Road East
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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WINGTAI ASIA