

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

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

In the opinion of the directors, the ultimate holding company is High Fashion, which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

2. BASIS OF PRESENTATION

The financial statements have been prepared on the going concern basis because the immediate holding company, Navigation Limited, a subsidiary of High Fashion, has provided loan facilities in aggregate of HK\$100 million for the Company to meet its liabilities as and when they fall due. As at 31 December 2003, HK\$85 million of the loan facilities was drawn and is not repayable earlier than 30 April 2005.

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

The revised Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" is effective for the current year's financial statements which prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 11 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

NOTES TO FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003 except for subsidiaries under severe restrictions which are not consolidated. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividend received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

NOTES TO FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Joint venture companies – continued

A joint venture company is treated as:

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

Associates

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

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

Goodwill

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

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

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

NOTES TO FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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

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

Related parties

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fixed assets and depreciation

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

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

Leasehold land and buildings	Over the lease terms or 50 years, whichever is less
Plant and equipment	15%
Furniture and fixtures at:	
(i) Shops	Over the lease terms
(ii) Sales counter and office	20%
Office equipment	20%
Motor vehicles	20%

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

Operating leases

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

Long term investments

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

When the security is determined to be impaired, the amount of impairment is charged to the profit and loss account in the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

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31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

Employee benefits

Paid leave carried forward

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits – continued

Employment Ordinance long service payments

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

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates defined contribution retirement benefits schemes (the "Schemes") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate. The Schemes include a Mandatory Provident Fund Exempted ORSO scheme, and a Mandatory Provident Fund retirement benefits scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Schemes. The assets of the Schemes are held separately from those of the Group in independently administered funds. When an employee leaves the Mandatory Provident Fund Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect to the Mandatory Provident Fund retirement benefits scheme the Group's employer contributions vest fully with the employees when contributed into the scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The Group's subsidiary which operates in Singapore are required to make contributions to the state pension scheme, the Central Provident Fund, as required by Singapore law. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the state pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

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

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) commission income, when services are rendered to the customers;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) rental income, on a time proportion basis over the lease terms.

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5. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by geographical segment. Since the Group's operating businesses are derived from the manufacturing, retailing and trading of garments, no separate analysis of financial information by business segment is presented in the financial statements.

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

The following tables present revenue, loss and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong & Macau		Mainland China		Taiwan		Singapore		Consolidated	
	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000
Segment revenue:										
Sales to external customers	22,781	54,814	55,797	80,040	84,267	105,266	9,220	10,613	172,065	250,733
Segment results	(8,700)	(10,895)	(2,802)	(5,905)	(2,788)	(3,102)	(1,363)	(4,155)	(15,653)	(24,057)
Interest income									47	145
Loss from operating activities									(15,606)	(23,912)
Finance costs									(4,068)	(3,963)
Loss before tax									(19,674)	(27,875)
Tax									(215)	(57)
Net loss from ordinary activities attributable to shareholders									(19,889)	(27,932)

NOTES TO FINANCIAL STATEMENTS

31 December 2003

5. SEGMENT INFORMATION – continued

Group

	Hong Kong & Macau		Mainland China		Taiwan		Singapore		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment assets	11,557	20,648	44,435	38,935	28,880	31,565	3,267	4,578	88,139	95,726
Interests in associates	(608)	(608)	–	–	–	–	–	–	(608)	(608)
Long term investment	675	675	–	–	–	–	–	–	675	675
Total assets	11,624	20,715	44,435	38,935	28,880	31,565	3,267	4,578	88,206	95,793
Segment liabilities	24,706	30,149	18,151	25,683	8,875	5,018	710	288	52,442	61,138
Unallocated liabilities									85,000	64,000
Total liabilities									137,442	125,138
	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Other segment information:										
Depreciation	1,588	1,904	1,545	2,872	2,673	2,684	167	140	5,973	7,600
Other non-cash expense/(income)	101	100	(11)	(6)	363	354	11	–	464	448
Capital expenditure	243	1,120	764	1,684	2,578	3,245	144	724	3,729	6,773

6. TURNOVER

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

NOTES TO FINANCIAL STATEMENTS

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7. LOSS FROM OPERATING ACTIVITIES

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

	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Cost of inventories sold	69,598	109,143
Charge of provision for inventories (included in the above cost of inventories sold)	1,776	4,534
Depreciation	5,973	7,600
Auditors' remuneration	496	394
Operating lease rental of land and buildings:		
Minimum lease payments	25,321	47,247
Contingent rents	18,575	19,984
	43,896	67,231
Loss on disposal of fixed assets, net	464	448
Exchange losses/(gains), net	(692)	107
Staff costs (including directors' remuneration – note 9):		
Retirement benefits contributions	602	1,320
Less: Forfeited contributions	(160)	(743)
Net retirement benefits contributions*	442	577
Wages, salaries and bonuses	36,062	50,305
	36,504	50,882
Bank interest income	(47)	(145)
Sub-letting rental income, net (included in selling and distribution costs)	(5,003)	(5,672)
Commission income	–	(47)

* At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (31 December 2002: Nil).

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8. FINANCE COSTS

	Year ended 31 December 2003 HK\$'000	Group	Period from 1 October 2001 to 31 December 2002 HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	3,854		3,572
Bank charges	214		391
	4,068		3,963

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December 2003 HK\$'000	Group	Period from 1 October 2001 to 31 December 2002 HK\$'000
Fees	160		200
Other emoluments:			
Salaries, allowances and benefits in kind	–		780
Pension scheme contributions	–		40
	–		820
	160		1,020

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

9. DIRECTORS' REMUNERATION – continued

The number of directors whose remuneration fell within the following bands is as follows:

	Year ended 31 December 2003	Number of directors
Nil to HK\$1,000,000	6	Period from 1 October 2001 to 31 December 2002 7

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any directors (period ended 31 December 2002: one), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining five (period ended 31 December 2002: four) non-director, highest paid employees are as follows:

	Year ended 31 December 2003	Group
	HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Salaries, allowances and benefits in kind	3,123	2,256
Pension scheme contributions	57	89
	3,180	2,345

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES – continued

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December 2003	Number of employees
		Period from 1 October 2001 to 31 December 2002
Nil to HK\$1,000,000	5	4

11. TAX

No Hong Kong profits tax has been provided for the year ended 31 December 2003 (period ended 31 December 2002: Nil) as the Group had no assessable profit arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December 2003	Period from 1 October 2001 to 31 December 2002
	HK\$'000	HK\$'000
Group:		
Underprovision for prior periods:		
Mainland China	–	57
Taiwan	215	–
	215	57

NOTES TO FINANCIAL STATEMENTS

31 December 2003

11. TAX – continued

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

	Year ended 31 December 2003 HK\$'000	Period from 1 October 2001 to 31 December 2002 HK\$'000
Loss before tax	(19,674)	(27,875)
Tax at the statutory rate of 17.5% (2002: 16%)	(3,443)	(4,460)
Effect of different tax rates in other countries	496	619
Underprovision in the prior year	215	57
Income not subject to tax	(518)	(656)
Expenses not deductible for tax	1,612	1,990
Tax losses utilised from previous periods	(3,104)	(3,060)
Remaining tax loss carried forward	4,957	5,567
Tax charge at the Group's effective rate	215	57

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$6,278,000 (period ended 31 December 2002: HK\$45,252,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$19,889,000 (period ended 31 December 2002: HK\$27,932,000) and the number of 2,508,329,402 (period ended 31 December 2002: 2,508,329,402) ordinary shares in issue during the year.

The diluted loss per share amounts for the year ended 31 December 2003 and period from 1 October 2001 to 31 December 2002 have not been calculated as the Company's convertible notes would have had an anti-dilutive effect on the basic loss per share for the year/period.

NOTES TO FINANCIAL STATEMENTS

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14. FIXED ASSETS

Group

	Land and buildings <i>HK\$'000</i>	Plant and equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2003	2,878	6,540	38,556	1,777	49,751
Additions	–	26	3,599	104	3,729
Disposals	–	(100)	(9,513)	(50)	(9,663)
At 31 December 2003	2,878	6,466	32,642	1,831	43,817
Accumulated depreciation:					
At 1 January 2003	668	5,241	29,502	1,433	36,844
Provided during the year	105	402	5,300	166	5,973
Disposals	–	(100)	(8,996)	(17)	(9,113)
Exchange realignment	–	–	(24)	–	(24)
At 31 December 2003	773	5,543	25,782	1,582	33,680
Net book value:					
At 31 December 2003	2,105	923	6,860	249	10,137
At 31 December 2002	2,210	1,299	9,054	344	12,907

The Group's land and buildings included above are situated in the PRC and held under a long term lease.

At 31 December 2003, the Group's land and buildings with a net book value of HK\$2,105,000 (31 December 2002: HK\$2,210,000) were pledged to secure banking facilities granted to the Group (note 25).

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31 December 2003

14. FIXED ASSETS – continued

Company

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1 January 2003	7,457	839	8,296
Disposals	(4,625)	–	(4,625)
Transfer to a subsidiary	(2,832)	(839)	(3,671)
At 31 December 2003	–	–	–
Accumulated depreciation:			
At 1 January 2003	6,267	839	7,106
Provided during the year	169	–	169
Disposals	(4,624)	–	(4,624)
Transfer to a subsidiary	(1,812)	(839)	(2,651)
At 31 December 2003	–	–	–
Net book value:			
At 31 December 2003	–	–	–
At 31 December 2002	1,190	–	1,190

15. GOODWILL

As detailed in note 4 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to the adoption of the SSAP, was HK\$2,007,000 as at 31 December 2003. The amount of goodwill is stated at its cost which arose in prior periods.

NOTES TO FINANCIAL STATEMENTS

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16. INTERESTS IN SUBSIDIARIES

	2003 <i>HK\$'000</i>	Company 2002 <i>HK\$'000</i>
Unlisted shares, at cost	111,000	122,700
Due from subsidiaries	868,206	867,096
Due to subsidiaries	–	(18,755)
	979,206	971,041
Provision for impairment	(979,206)	(989,796)
	–	(18,755)

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations®	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Angel Star Investment Limited	Hong Kong	HK\$2 ordinary HK\$2 non-voting deferred	100	100	Holding of trademarks
Dong Guan Sanyue Fashions Limited (<i>note i</i>)	PRC	HK\$10,000,000	92	92	Manufacturing of garments
Granwick International Limited	Hong Kong	HK\$2	100	100	Investment holding
Guangdong Theme-Huayu Fashion Company Limited (<i>note ii</i>)	PRC	RMB5,000,000	49	49	Retailing of garments

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31 December 2003

16. INTERESTS IN SUBSIDIARIES – continued

Name	Place of incorporation/ registration and operations [®]	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Quality Control Agency Inc.	British Virgin Islands/ PRC	US\$1,000	100	100	Manufacturing of garments
Shanghai Theme Fashion Company (note ii)	PRC	RMB3,000,000	49	49	Retailing of garments
Stage II Limited	Hong Kong	HK\$800,000	100	100	Retailing of garments
Super Base (China) Limited	Hong Kong	HK\$2	100	100	Property holding
Taiwan Vision Company Limited	Taiwan	NTD80,000,000	100	100	Retailing of garments
Theme (China) Limited	Hong Kong	HK\$2	100	100	Investment holding
Theme Fashion (Singapore) Pte. Ltd.*	Singapore	S\$100,000	100	100	Retailing of garments
Theme International Holdings (B.V.I.) Limited	British Virgin Islands/ Hong Kong	US\$10,001	100	100	Investment holding
Theme International Limited	Hong Kong	HK\$2 ordinary HK\$1,000,000 non-voting deferred	100	100	Trading of garments
Wescorp Limited	Hong Kong	HK\$82,208,893	56	56	Investment holding
Wortheme Investment Limited	Hong Kong	HK\$12	100	100	Investment Holding

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

® Unless otherwise stated, the place of operations is the place of incorporation or registration.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

16. INTERESTS IN SUBSIDIARIES – continued

Notes:

- (i) The Group has a 92% beneficial interest in Dong Guan Sanyue Fashions Ltd. (“Dongguan Sanyue”). By virtue of an arrangement between the Group and the joint venture partner holding the remaining 8% beneficial interest in Dongguan Sanyue, the Group is entitled to all of Dongguan Sanyue’s profits and is liable for all its losses. The PRC joint venture partner receives a monthly management fee of HK\$30,000.
- (ii) The Group has a 49% beneficial interest in Guangdong Theme-Huayu Fashion Company Limited (“Guangdong Theme-Huayu”). By virtue of an arrangement between the Group and the joint venture partner holding the remaining 51% beneficial interest in Guangdong Theme-Huayu, the Group is entitled to all of Guangdong Theme-Huayu’s profits and is liable for all its losses. The PRC joint venture partner receives a monthly management fee of RMB60,000. Accordingly, Guangdong Theme-Huayu and its wholly-owned subsidiary, Shanghai Theme Fashion Company Limited, have been consolidated into the Group’s accounts.

All the subsidiaries listed above are indirectly held by the Company with the exception of Theme International Holdings (B.V.I.) Limited.

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

17. SUBSIDIARIES OPERATING UNDER SEVERE RESTRICTIONS

The Group acquired a 56% equity interest in Wescorp Limited, the sole asset of which is a 99.6% equity interest in the Emporium Group, on 22 August 1997. On 9 July 1998, the Emporium Group was placed under judicial management, an event which significantly impaired the Group’s ability to control the Emporium Group’s assets and operations. Accordingly, the Emporium Group has not been consolidated into the Group’s accounts since 1 April 1998. The individual assets and liabilities of the Emporium Group are not included in the Group’s consolidated balance sheet.

The Group’s interest in the Emporium Group included in the consolidated balance sheet as at 31 December 2003 and 31 December 2002 is as follows:

	2003 HK\$’000	2002 <i>HK\$’000</i>
Share of net assets as at 31 March 1998	184,100	184,100
Amount due from the Emporium Group	3,774	3,774
	187,874	187,874
Provision for impairment	(187,874)	(187,874)
	–	–

No information is available in respect of the Emporium Group’s operating results for the year ended 31 December 2003 and the period from 1 October 2001 to 31 December 2002 and its net assets as at 31 December 2003 and 31 December 2002.

NOTES TO FINANCIAL STATEMENTS

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17. SUBSIDIARIES OPERATING UNDER SEVERE RESTRICTIONS – continued

Particulars of the principal subsidiaries operating under severe restrictions, none of which are audited by Ernst & Young, are as follows:

Name	Place of incorporation/ resignation and operations	Nominal value of issued/ paid-up capital	Percentage of equity interest attributable to Wescorp Limited		Principal activities
			2003	2002	
Emporium Holdings (Singapore) Limited*	Singapore	S\$2,507,519 (Class A) S\$16,800,000 (Class B)	96.9 100	96.9 100	Property investment and investment holding
Chao Phaya Thai Restaurant Pte. Limited	Singapore	S\$300,000	99.6	99.6	Restaurant operations
EH Distribution Pte. Limited	Singapore	S\$250,000	99.6	99.6	Trading and distribution
Emporium Department Store Pte. Limited	Singapore	S\$2,000,000	99.6	99.6	Department store and supermarket operations
Katong Emporium & Supermarket Pte. Limited	Singapore	S\$280,000	99.6	99.6	Property investment
Oriental Restaurant Pte. Limited	Singapore	S\$250,000	99.6	99.6	Restaurant operations
Sports Stop Boutique Pte. Limited	Singapore	S\$400,000	99.6	99.6	Sports goods retailing

* The class "B" shares issued by Emporium Holdings (Singapore) Limited carry the rights to four times the dividend, bonus and right issue compared with the class "A" shares. The Group's effective interest in Emporium Holdings (Singapore) Limited and all of its wholly-owned subsidiaries at 31 December 2003 is 56%.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

18. INTERESTS IN ASSOCIATES

	2003 <i>HK\$'000</i>	Group 2002 <i>HK\$'000</i>
Share of net liabilities	–	–
Due to associates	(608)	(608)
	(608)	(608)

The amounts due to associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
Sherman-Theme (China) Limited	Corporate	Hong Kong	50	50	Investment holding
Shenyang Sherman – Theme Fashion Limited*	Corporate	PRC	30	30	Dormant

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

NOTES TO FINANCIAL STATEMENTS

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19. LONG TERM INVESTMENT

	Group and Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted equity investment, at cost	1,000	1,000
Provision for impairment	(325)	(325)
	675	675

20. INVENTORIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Raw materials	7,770	7,220
Finished goods	20,658	34,940
	28,428	42,160

None of the inventories were stated at net realisable value as at 31 December 2003 (2002: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

21. TRADE RECEIVABLES

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

	2003 HK\$'000	Group	2002 HK\$'000
Current to 90 days	8,181		12,213
91 to 180 days	1		544
181 to 360 days	4		72
	8,186		12,829

The Group allows an average credit period of 30 to 60 days to its trade debtors.

22. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts due from/to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances		26,173	13,791	10	301
Time deposits		–	1,293	–	–
		26,173	15,084	10	301
Less: Pledged time deposits	(a)	–	(1,293)	–	–
		26,173	13,791	10	301

Note:

(a) Prior period's pledged time deposits was used to secure bank guarantees to landlords of the retail shops as at 31 December 2002.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$14,874,000 (2002: HK\$5,582,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS

31 December 2003

24. TRADE PAYABLES AND ACCRUED PURCHASES

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

	2003 HK\$'000	Group 2002 <i>HK\$'000</i>
Current to 90 days	10,558	10,581
91 to 180 days	71	3,402
181 to 360 days	1,104	1,546
Over 360 days	5,568	5,045
	17,301	20,574

25. BANK LOANS AND OVERDRAFTS

	2003 HK\$'000	Group 2002 <i>HK\$'000</i>
Bank overdrafts, unsecured	1,857	1,003
Bank loans, secured	1,140	1,524
Trust receipt loans, unsecured	2,391	8,620
	5,388	11,147

At 31 December 2003, the bank loans were secured by mortgages over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of HK\$2,105,000 (2002: HK\$2,210,000) (note 14).

NOTES TO FINANCIAL STATEMENTS

31 December 2003

26. AMOUNT DUE TO HOLDING COMPANY

		Group and Company	
	Notes	2003 HK\$'000	2002 HK\$'000
Non-interest bearing current account	(a)	3,756	649
Loan repayable in the second to fifth years, inclusive	(b)	85,000	64,000
		88,756	64,649
Portion classified as current liabilities		(3,756)	(649)
Long term portion		85,000	64,000

Notes:

- (a) The current account with holding company is unsecured, interest-free and has no fixed terms of repayment.
- (b) As at 31 December 2003, HK\$100 million loan facilities were granted by the holding company (2002: HK\$100 million) which were unsecured, bore interest at Hong Kong Dollar Prime Rate and are not repayable earlier than 30 April 2005. The total outstanding loan of HK\$85 million is subject to a clause that it will become repayable on demand if the holding company ceased to be the controlling shareholder of the Company.

27. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK\$731,047,000 (2002: HK\$642,016,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. In addition, the Group has tax losses arising in Taiwan of HK\$22,839,000 (2002: HK\$41,991,000) that are available for 5 years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

NOTES TO FINANCIAL STATEMENTS

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28. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i> 50,000,000,000 ordinary shares of HK\$0.01 each	500,000	500,000
<i>Issued and fully paid:</i> 2,508,329,402 ordinary shares of HK\$0.01 each	25,083	25,083

29. SHARE OPTION SCHEME

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2003

29. SHARE OPTION SCHEME – continued

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

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

No share options were granted during the year nor outstanding as at the balance sheet date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior periods are presented in the consolidated statement of changes in equity on page 19 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Goodwill arising on the acquisition of a subsidiary in prior periods remain eliminated against consolidated reserves, as further explained in note 15 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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30. RESERVES – continued

(b) Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 October 2001	798,599	84,000	(1,010,467)	(127,868)
Loss for the period	–	–	(45,252)	(45,252)
At 31 December 2002 and 1 January 2003	798,599	84,000	(1,055,719)	(173,120)
Loss for the year	–	–	(6,278)	(6,278)
At 31 December 2003	798,599	84,000	(1,061,997)	(179,398)

The contributed surplus of the Company arose as a result of the Group's reorganisation in 1994 and represented the excess of the fair value of the subsidiaries' net assets acquired over the nominal value of the Company's shares issued in exchange therefor. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

NOTES TO FINANCIAL STATEMENTS

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31. CONVERTIBLE NOTES

The convertible notes carry the right to convert into 752,498,000 new shares of the Company at the conversion price of HK\$0.088 per share, subject to adjustment, representing 30% and 23% of the existing share capital and enlarged share capital after conversion, respectively.

The convertible notes are unsecured, interest-free and are convertible in whole or in part by the noteholders into shares at any time on or before 30 August 2005. Any part of the convertible notes which are not converted will be immediately converted into shares on 30 August 2005. Such mandatory conversion will be automatically postponed until such time as the Company is satisfied that, at least 25% of the shares are held by the public as required under the Listing Rules.

32. NOTE TO THE CASH FLOW STATEMENT

Restricted cash and cash equivalent balances

Certain of the Group's time deposits as at 31 December 2002 were pledged to a bank to secure bank guarantees granted to the Group, as further explained in note 23.

33. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in connection with facilities granted to a subsidiary	-	-	39,880	52,880

As at 31 December 2003, the guarantees given by the Company to banks in connection with facilities granted to a subsidiary were utilised to the extent of approximately HK\$5,388,000 (2002: HK\$11,147,000).

NOTES TO FINANCIAL STATEMENTS

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34. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged land and buildings amounting to HK\$2,105,000 (2002: land and buildings of HK\$2,210,000 and time deposits of HK\$1,293,000) to banks to secure bank facilities granted to the Group.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group subleases its rented shops under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2003 HK\$'000	Group 2002 HK\$'000
Within one year	2,403	2,485
In the second to fifth years, inclusive	365	625
	2,768	3,110

NOTES TO FINANCIAL STATEMENTS

31 December 2003

35. OPERATING LEASE ARRANGEMENTS – continued

(b) As lessee

The Group leases certain of its office properties, retail shops and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	16,967	22,641	77	464
In the second to fifth years, inclusive	10,631	12,566	–	77
	27,598	35,207	77	541

36. RELATED PARTY TRANSACTIONS

In addition to those transactions and balance disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	Year ended 31 December 2003 HK\$'000	Group Period from 1 October 2001 to 31 December 2002 HK\$'000
Interest expense payable to the holding company	(i)	(3,500)	(2,835)
Commission income received from fellow subsidiaries	(ii)	–	47
Rental expense to a fellow subsidiary	(iii)	(420)	(630)
Subcontracting fee received from subsidiaries, the processing operation in the PRC controlled by and a jointly-controlled entity of the ultimate holding company	(iv)	3,530	1,982
Service fee payable to a fellow subsidiary	(v)	(4,672)	(7,253)

NOTES TO FINANCIAL STATEMENTS

31 December 2003

36. RELATED PARTY TRANSACTIONS – continued

Notes:

- (i) Interest expense was payable to the holding company on the loan advance of HK\$85 million (2002: HK\$64 million) which bore interest at the Hong Kong Dollar Prime Rate.
- (ii) Commission income was received from a subsidiary of the ultimate holding company for the provision of selling services, at 1% of the turnover of those products.
- (iii) Rental charges were payable to a subsidiary of the ultimate holding company with reference to the prevailing market rate of the office premise.
- (iv) Subcontracting fee income receivable from subsidiaries, the processing operation in the PRC controlled by, and jointly-controlled entity of the ultimate holding company was charged in the normal course of business and at a consideration decided between parties with reference to the prevailing market price.
- (v) Service fee for computer systems and data processing services, financial and management accounting services, human resources support, office administration services and company secretarial services, is calculated at an annual charge payable by the Group to High Fashion Garments Management Limited (“HFGM”) at the lower of HK\$6,000,000 or 2% of the annual turnover of the Group and service fee for warehousing and distribution services, is calculated at an annual charge payable by the Group to HFGM at the lower of HK\$3,000,000 or 1% of the annual turnover of the Group.

37. APPROVAL OF THE FINANCIAL STATEMENTS

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