

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

1. GENERAL

The Company was incorporated in Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is High Fashion International Limited ("High Fashion"), a company incorporated in Bermuda and its shares are listed on the Stock Exchange.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 13.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out as follows:

Basis of consolidation

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

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

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

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Revenue recognition

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

Subcontracting fee income are recognised when services are provided.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income are recognised on a straight-line basis over the relevant lease term.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the lease terms, or 50 years
Plant and equipment	15%
Furniture and fixtures at:	
Shops	Over the lease terms
Sales counters and offices	20%
Office equipment	20%
Motor vehicles	20%

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

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

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Taxation

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

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

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Operating leases

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

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as expenses as they fall due.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outsider customers, less return and allowances and subcontracting fee income for the year, and is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Sales of goods	194,992	168,535
Subcontracting fee income	6,273	3,530
	201,265	172,065

5. SEGMENT INFORMATION

The directors report the geographical segments as the Group's primary segment information.

Geographical segments

The following table provides an analysis of the Group's sales by location of markets:

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

5. SEGMENT INFORMATION – continued

Income statement

	Hong Kong and Macau		People's Republic of China ("PRC")		Taiwan		Singapore		Elimination		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover												
External sales	25,376	22,781	65,322	55,797	103,299	84,267	7,268	9,220	-	-	201,265	172,065
Inter-segment sales	45,279	34,960	58,914	40,032	-	-	-	-	(104,193)	(74,992)	-	-
	70,655	57,741	124,236	95,829	103,299	84,267	7,268	9,220	(104,193)	(74,992)	201,265	172,065
Segment results	(7,424)	(8,700)	(5,537)	(2,802)	6,744	(2,788)	(156)	(1,363)			(6,373)	(15,653)
Interest income											60	47
Loss from operations											(6,313)	(15,606)
Finance costs											(4,673)	(4,068)
Loss before taxation											(10,986)	(19,674)
Taxation credit (charge)											(1,406)	(215)
Loss before minority interest											(9,580)	(19,889)
Minority interest											1,397	-
Net loss for the year											(8,183)	(19,889)

Inter-segment sales are charged at cost.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

5. SEGMENT INFORMATION – continued

Balance sheet

	Hong Kong and Macau		PRC		Taiwan		Singapore		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
ASSETS										
Segment assets	53,300	12,232	71,747	44,435	47,520	28,880	2,000	3,267	174,567	88,814
LIABILITIES										
Segment liabilities	12,347	16,485	23,691	18,151	13,954	8,875	625	710	50,617	44,221
Unallocated corporate liabilities									63,708	93,829
Consolidated total liabilities									114,325	138,050

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

5. SEGMENT INFORMATION – continued

Other information

	Hong Kong and Macau		PRC		Taiwan		Singapore		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Additions of property, plant and equipment	3,278	243	8,990	764	6,127	2,578	6	144	18,401	3,729
Depreciation	900	1,588	1,921	1,545	3,021	2,673	164	167	6,006	5,973
Loss (profit) on disposal of property, plant and equipment	201	101	42	(11)	277	363	167	11	687	464
Impairment losses reversed in the income statement	–	–	(1,172)	–	–	–	–	–	(1,172)	–
Impairment losses recognised in the income statement	–	–	2,860	–	–	–	–	–	2,860	–

Business segments

For management purposes, the Group is currently organised into two operating business – manufacturing, retailing and trading of garments (“Fashion”) and manufacturing and trading of uniform (“Uniform”).

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

5. SEGMENT INFORMATION – continued

The following table provides an analysis of the Group's sales by business segments:

	Turnover by business segments	
	2004 HK\$'000	2003 HK\$'000
Fashion	195,631	172,065
Uniform	5,634	–
	201,265	172,065

The following is an analysis of the carrying amount of segment assets at the balance sheet date, and additions to property, plant and equipment during the year which is analysed by business segments:

	Carrying amount of segments assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Fashion	167,578	88,814	12,060	3,729
Uniform	6,989	–	6,341	–
	174,567	88,814	18,401	3,729

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

6. LOSS FROM OPERATIONS

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Allowance for obsolete inventories (included in cost of sales)	2,943	1,776
Depreciation	6,006	5,973
Directors' remuneration (<i>note 8</i>)	196	160
Auditors' remuneration	638	496
Operating lease rentals in respect of rented premises	44,700	43,896
Loss on disposal of property, plant and equipment	687	464
Net foreign exchange gains	(2,424)	(692)
Other staff costs		
Salaries and allowances	47,750	36,062
Retirement benefits scheme contributions	248	442
	47,998	36,504
Interest income	(60)	(47)
Sub-letting rental income (included in selling and distribution expenses)	(3,337)	(5,003)

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For the Year ended 31 December 2004

7. FINANCE COSTS

THE GROUP

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans and overdrafts and other borrowings wholly repayable within five years	222	354
Bank charges	203	214
Loan from immediate holding company	4,248	3,500
	4,673	4,068

8. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Fees	196	160
Other emoluments:		
Salaries and allowances	–	–
Retirement benefits scheme contributions	–	–
Total emoluments	196	160

Fees include HK\$196,000 (2003: HK\$160,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The aggregate emoluments of each of their emoluments during both years were within the emoluments band ranging from nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to any of 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 FINANCIAL STATEMENTS

For the Year ended 31 December 2004

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group during the year did not include any directors of the Company (2003: Nil). The emoluments of the five (2003: five) highest paid individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	3,063	3,123
Retirement benefits scheme contributions	44	57
	3,107	3,180

The aggregate emoluments of each of their emoluments for both years were within the emoluments band ranging from nil to HK\$1,000,000.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

10. TAXATION CREDIT (CHARGE)

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax:		
Other regions in the PRC	(2,011)	–
Other jurisdictions	(24)	–
	(2,035)	–
Over(under)provision in prior years:		
Hong Kong	3,441	–
Other jurisdictions	–	(215)
	3,441	(215)
	1,406	(215)

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both years.

Taxation arising in the PRC and other jurisdictions are calculated at the rates prevailing in the respective PRC regions and the relevant jurisdictions respectively.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

10. TAXATION CREDIT (CHARGE) – continued

The taxation for the year can be reconciled to the loss before taxation per income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	10,986	19,674
Tax at the Hong Kong Profits Tax rate of 17.5%	1,923	3,443
Tax effect of income not taxable for tax purpose	4,266	518
Tax effect of expenses not deductible for tax purpose	(4,919)	(1,612)
Utilisation of tax losses previously not recognised	4,107	3,104
Tax effect of tax losses not recognised	(7,089)	(4,957)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(323)	(496)
Over(under)provision in respect of prior years	3,441	(215)
Taxation credit (charge) for the year	1,406	(215)

At the balance sheet date, the Group has estimated unused tax losses of approximately HK\$756,868,000 (2003: HK\$753,886,000) available for offset future profits. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year 31 December 2004 together with the comparative figures for 2003 are calculated as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss for the purpose of basic and diluted loss per share	(8,183)	(19,889)
	Number	Number
Weighted average number of ordinary shares for the purpose of basic loss per share	2,914,962,037	2,627,773,659
Effect of dilutive potential ordinary shares assumed conversion of convertible notes	N/A	N/A
Weighted average number of ordinary shares for the purpose of diluted loss per share	2,914,962,037	2,627,773,659

The weighted average number of ordinary shares for the year ended 31 December 2003 for the purposes of basic and diluted loss per share has been adjusted for the open offer of the Company's shares to qualifying shareholders on the basis of one offer share for every existing share held on 25 October 2004 ("Open offer"), which was completed on 17 November 2004.

The calculation of diluted loss per share for both years did not assume the conversion of the Company's convertible notes as the conversion price of those convertible notes were higher than the average market price of shares.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold 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>
THE GROUP					
COST					
At 1 January 2004	5,278	6,466	32,642	1,831	46,217
Additions	–	3,376	14,653	372	18,401
Disposals	–	(102)	(5,775)	(959)	(6,836)
Exchange realignment	–	–	1,300	5	1,305
At 31 December 2004	5,278	9,740	42,820	1,249	59,087
DEPRECIATION AND IMPAIRMENT					
At 1 January 2004	3,173	5,543	25,782	1,582	36,080
Provided for the year	106	354	5,366	180	6,006
Impairment loss recognised in the income statement	–	1,000	1,860	–	2,860
Impairment loss reversed in the income statement	(1,172)	–	–	–	(1,172)
Eliminated on disposals	–	(102)	(5,037)	(959)	(6,098)
Exchange realignment	–	–	1,129	4	1,133
At 31 December 2004	2,107	6,795	29,100	807	38,809
NET BOOK VALUES					
At 31 December 2004	3,171	2,945	13,720	442	20,278
At 31 December 2003	2,105	923	6,860	249	10,137

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT – continued

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

At 31 December 2003, the Group's leasehold land and buildings with a net book value of HK\$2,105,000 were pledged to banks to secure banking facilities granted to the Group as set out in note 22. The pledge was released during the year.

The directors conducted a review on the recoverable amount of the leasehold land and buildings and plant and equipment at the balance sheet date with reference to market value and accordingly, impairment losses of HK\$1,172,000 and HK\$1,000,000 have been reversed and provided respectively for the year.

On 10 April 2005, the Group disposed of certain of furniture, fixtures and office equipment for an aggregate consideration of HK\$1,000,000. After making due enquiry, the directors were satisfied that the selling price of the furniture, fixtures and office equipment represented the estimated recoverable amount as at 31 December 2004. Accordingly, an impairment loss of HK\$1,860,000 was recognised.

13. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	THE COMPANY 2003 HK\$'000
Unlisted shares, at cost	111,000	111,000
Amounts due from subsidiaries	947,627	868,206
	1,058,627	979,206
Less: Impairment loss recognised	(988,627)	(979,206)
	70,000	–

The amounts due from subsidiaries are unsecured, interest-free and in the opinion of directors, the amounts will not be repaid within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

13. INTERESTS IN SUBSIDIARIES – continued

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

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
Angel Star Investment Limited	Hong Kong	HK\$2 ordinary HK\$2 non-voting deferred	100	Trademarks holding
Dong Guan Sanyue Fashions Limited ("Dongguan Sanyue") (note i)	PRC	HK\$10,000,000	92	Manufacturing of garments
Granwick International Limited	Hong Kong	HK\$2	100	Investment holding
Guangdong Theme-Huayu Fashion Company Limited ("Guangdong Theme-Huayu") (note ii)	PRC	RMB5,000,000	100	Retailing of garments
Shanghai Theme Fashion Company ("Shanghai Theme") (note ii)	PRC	RMB3,000,000	100	Retailing of garments

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

13. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
Stage II Limited	Hong Kong	HK\$800,000	100	Retailing of garments
Super Base (China) Limited	Hong Kong	HK\$2	100	Property holding
Taiwan Vision Company Limited	Taiwan	NTD80,000,000	100	Retailing of garments
Theme (China) Limited	Hong Kong	HK\$2	100	Investment holding
Theme Corporate Fashion Limited	BVI	US\$1	100	Investment holding
Theme Corporate Fashion (Asia) Limited	Hong Kong	HK\$1	100	Trading of garments
Theme Corporate Fashion (Overseas) Limited	Hong Kong	HK\$1	100	Trading of garments
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S\$100,000	100	Retailing of garments
Theme Industry Hangzhou Company Limited ("Hangzhou Theme") (note iii)	PRC	US\$2,000,000	100	Manufacturing of garments
Theme International Holdings (B.V.I.) Limited ("Theme BVI")	British Virgin Islands/Hong Kong	US\$10,001	100	Investment holding

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13. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
Theme International Limited	Hong Kong	HK\$2 ordinary HK\$1,000,000 non-voting deferred	100	Trading of garments
Wescorp Limited	Hong Kong	HK\$82,208,893	56	Investment holding
Wortheme Investment Limited	Hong Kong	HK\$12	100	Investment holding

Exception for Theme BVI which is directly held by the Company, all other subsidiaries listed above are indirectly held by the Company.

The above table lists the subsidiaries of the Group 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 issued any debt securities at the end of the year.

Notes:

- (i) Under a joint venture agreement, the Group has contributed 92% of the registered capital of HK\$10,000,000 in Dongguan Sanyue, a sino-foreign equity joint venture company established in the PRC with a term of 15 years commencing from 16 December 1991. The Group is to bear the entire risk and liabilities of Dongguan Sanyue and, other than a monthly management fee of HK\$30,000 that is received by the PRC joint venture partner, is entitled to the entire profit or loss of Dongguan Sanyue. On cessation of Dongguan Sanyue, the Group will be entitled to all assets other than those contributed by the PRC joint venture partner.

NOTES TO FINANCIAL STATEMENTS

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13. INTERESTS IN SUBSIDIARIES – continued

Notes: – continued

(ii) Under a joint venture agreement, the Group has contributed 49% of the registered capital of RMB5,000,000 in Guangdong Theme-Huayu, a sino-foreign equity joint venture company established in the PRC. The Group is entitled to the entire profit or loss of Guangdong Theme-Huayu after deducting a monthly management fee of RMB60,000 that is received by the PRC joint venture partner. Accordingly, Guangdong Theme-Huayu and its wholly-owned subsidiary, Shanghai Theme, are therefore accounted for as subsidiaries of the Group.

Pursuant to an agreement made between the Group and the PRC joint venture partner during the year, the remaining 51% shareholding of Guangdong Theme-Huayu was transferred to the Group and Guangdong Theme-Huayu became the wholly foreign owned enterprise. The transfer was completed on 26 May 2004.

(iii) Hangzhou Theme is a wholly foreign-owned enterprise for a period of 30 years commencing on 30 May 2003.

14. SUBSIDIARIES OPERATING UNDER SEVERE LONG-TERM 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 financial statements 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 2004 and 31 December 2003 is as follows:

	2004 HK\$'000	2003 HK\$'000
Share of net assets at 31 March 1998	184,100	184,100
Amount due from Emporium Group	3,774	3,774
	187,874	187,874
Less: Impairment loss recognised	(187,874)	(187,874)
	–	–

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14. SUBSIDIARIES OPERATING UNDER SEVERE LONG-TERM RESTRICTIONS – continued

No information is available in respect of the Emporium Group's operating results for the year ended 31 December 2004 and 31 December 2003 and its net assets as at 31 December 2004 and 31 December 2003.

Details of the Company's principal subsidiaries operating under severe long-term restrictions at 31 December 2004, none of which are audited by Deloitte Touche Tohmatsu, are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by Wescorp Limited %	Principal activities
Emporium Holdings (Singapore) Limited*	Singapore	S\$2,507,519 (Class A) S\$16,800,000 (Class B)	96.9 100	Property investment and investment holding
Chao Phaya Thai Restaurant Pte. Limited	Singapore	S\$300,000	99.6	Restaurant operations
EH Distribution Pte. Limited	Singapore	S\$250,000	99.6	Trading and distribution
Emporium Department Store Pte. Limited	Singapore	S\$2,000,000	99.6	Department store and supermarket operations
Katong Emporium & Supermarket Pte. Limited	Singapore	S\$280,000	99.6	Property investment

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14. SUBSIDIARIES OPERATING UNDER SEVERE LONG-TERM RESTRICTIONS – continued

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by Wescorp Limited %	Principal activities
Oriental Restaurant Pte. Limited	Singapore	S\$250,000	99.6	Restaurant operations
Sports Stop Boutique Pte. Limited	Singapore	S\$400,000	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 2004 is 56%.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	—	—

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

15. INTERESTS IN ASSOCIATES – continued

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

Name of entity	Form of business structure	Place of incorporation or registration/operation	Proportion of nominal value of issued share capital/registered capital held by the Group %	Principal activity
Sherman-Theme (China) Limited	Incorporated	Hong Kong	50	Investment holding
Shenyang Sherman – Theme Fashion Limited	Incorporated	PRC	30	Inactive

16. INVESTMENTS IN SECURITIES

THE GROUP AND THE COMPANY

	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	1,000	1,000
Less: Impairment loss recognised	(325)	(325)
	675	675

The directors reviewed the carrying value of the investment securities and no additional impairment loss is required.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

17. INVENTORIES

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	7,779	7,770
Work in progress	3,062	1,821
Finished goods	34,304	18,837
	45,145	28,428

Included above are the raw material of HK\$4,025,000 (2003: nil) and finished goods of HK\$4,729,000 (2003: HK\$4,885,000) which are carried at net realisable value.

18. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from 30 days to 60 days.

The aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within 90 days	21,499	8,181
91 to 180 days	47	1
181 to 360 days	99	4
	21,645	8,186

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

19. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES/AN ASSOCIATE

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

20. BANK BALANCES AND CASH

THE GROUP

At 31 December 2004, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK\$13,494,000 (2003: HK\$14,874,000) respectively. RMB is not freely convertible into other currencies.

21. TRADE PAYABLES

The aged analysis of the Group's trade payables at the balance sheet date is as follows:

	2004 HK\$'000	THE GROUP	2003 HK\$'000
Within 90 days	10,541		10,558
91 to 180 days	23		71
181 to 360 days	42		1,104
Over 360 days	3,340		5,568
	13,946		17,301

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

22. BANK BORROWINGS

The bank borrowings are repayable on demand or within one year:

Bank overdrafts

Bank loans

Trust receipt loans

Analysed as:

Secured

Unsecured

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
	–	1,857
	2,162	1,140
	4,278	2,391
	6,440	5,388
	–	1,140
	6,440	4,248
	6,440	5,388

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

23. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

THE GROUP AND THE COMPANY

	2004 HK\$'000	2003 HK\$'000
Current account with immediate holding company (<i>note i</i>)	560	3,756
Loan repayable within one year (<i>note ii</i>)	20,000	–
Loan repayable in the second to fifth year inclusive (<i>note ii</i>)	35,000	85,000
	55,560	88,756
Less: Amount due within one year shown under current liabilities	(20,560)	(3,756)
Amount due after one year	35,000	85,000

Notes:

- (i) The amount is unsecured, interest-free and has no fixed terms of repayment.
- (ii) As at 31 December 2004, HK\$100 million loan facilities were granted by Navigation Limited (2003: HK\$100 million) which were unsecured and interest bearing at Hong Kong Dollar Prime Rate. Pursuant to a deed of waiver and payment restructuring dated 14 September 2004 made between Navigation Limited and the Company, HK\$45 million was waived and the loan amount was reduced to HK\$55 million, in which HK\$20 million and HK\$35 million is repayable by 31 December 2005 and 31 December 2006 respectively.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

24. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2003, 31 December 2003 and 31 December 2004	50,000,000	500,000
<i>Issued and fully paid:</i>		
At 1 January 2003 and 31 December 2003	2,508,329	25,083
Issue of shares pursuant to Open offer (<i>note</i>)	2,508,330	25,084
At 31 December 2004	5,016,659	50,167

Note: On 17 November 2004, 2,508,329,402 shares of HK\$0.01 each were issued by way of Open offer at a subscription price of HK\$0.03 per share. The proceed after expenses, totalling approximately HK\$73,407,000 was used for expansion of its retailing business in the PRC and development of uniform manufacturing and trading business and for general working capital.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

25. RESERVES

THE COMPANY

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Shareholder's contribution <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	798,599	84,000	–	(1,055,719)	(173,120)
Net loss for the year	–	–	–	(6,278)	(6,278)
At 31 December 2003	798,599	84,000	–	(1,061,997)	(179,398)
Shareholder's contribution arising on waiver of loan from immediate holding company	–	–	45,000	–	45,000
Net loss for the year	–	–	–	(15,013)	(15,013)
Shares issued at premium	50,167	–	–	–	50,167
Share issue expenses	(1,844)	–	–	–	(1,844)
At 31 December 2004	846,922	84,000	45,000	(1,077,010)	(101,088)

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 available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

26. 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.

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 for both years nor outstanding as at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

27. CONVERTIBLE NOTES

THE GROUP AND THE COMPANY

The convertible notes payable to immediate holding company 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 Rules Governing the Listing of Securities on the Stock Exchange.

The outstanding amount of the convertible notes can be converted into ordinary share of HK\$0.01 each in the Company at an initial conversion price of HK\$0.088 (subject to adjustment) per share. The conversion price of the convertible notes was revised to HK\$0.069 (subject to adjustment) from 17 November 2004 due to the Open offer of the Company's shares.

28. MAJOR NON-CASH TRANSACTION

During the year, interest on loan from immediate holding company of HK\$560,000 (2003: HK\$3,107,000) was settled through the current account.

29. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC and Taiwan are members of retirement benefits schemes operated by the PRC and Taiwan government respectively. The contributions are charged to the income statement as incurred.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on a certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

30. CONTINGENT LIABILITIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	46,800	39,880

As at 31 December 2004, the banking facilities utilised by the subsidiaries amounted to approximately HK\$6,440,000 (2003: HK\$5,388,000).

31. OPERATING LEASES COMMITMENTS

The Group as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	25,611	16,967	–	77
In the second to fifth year inclusive	36,646	10,631	–	–
	62,257	27,598	–	77

Operating lease payments represent rentals payable by the Group and the Company for certain of its office premises, retail shops and office equipment. Leases are negotiated for terms ranging from one to five years and rentals are fixed over the lease terms.

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

31. OPERATING LEASES COMMITMENTS – continued

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2004 <i>HK\$'000</i>	THE GROUP	2003 <i>HK\$'000</i>
Within one year	2,711		2,403
In the second to fifth year inclusive	6,543		365
	9,254		2,768
	9,254		2,768

The property held has committed tenants for an average term of three years.

32. CAPITAL COMMITMENTS

	2004 <i>HK\$'000</i>	THE GROUP	2003 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	189		–
	189		–
	189		–

NOTES TO FINANCIAL STATEMENTS

For the Year ended 31 December 2004

33. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2004 HK\$'000	2003 HK\$'000
Interest expense charged by immediate holding company (<i>note i</i>)	4,248	3,500
Rental expense paid to a fellow subsidiary (<i>note ii</i>)	420	420
Subcontracting fee received from fellow subsidiaries (<i>note iii</i>)	6,273	3,530
Service fee charged by a fellow subsidiary (<i>note iv</i>)	3,687	4,672

Notes:

- (i) Interest expense charged by immediate holding company on the loan advance which was interest bearing at the Hong Kong Dollar Prime Rate.
- (ii) Rental charges were payable to a subsidiary of the ultimate holding company with reference to the terms set out in relevant rental agreement.
- (iii) Subcontracting fee income from fellow subsidiaries was charged in the normal course of business and at a consideration decided between parties with reference to the prevailing market price.
- (iv) 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 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 to HFGM at the lower of HK\$3,000,000 or 1% of the annual turnover of the Group.

Besides, the ultimate holding company has given guarantees to banks to secure banking facilities granted to the Group.

34. POST BALANCE SHEET EVENT

Subsequent to 31 December 2004, the Group disposed certain of its property, plant and equipment for an aggregate consideration of approximately HK\$1,000,000.