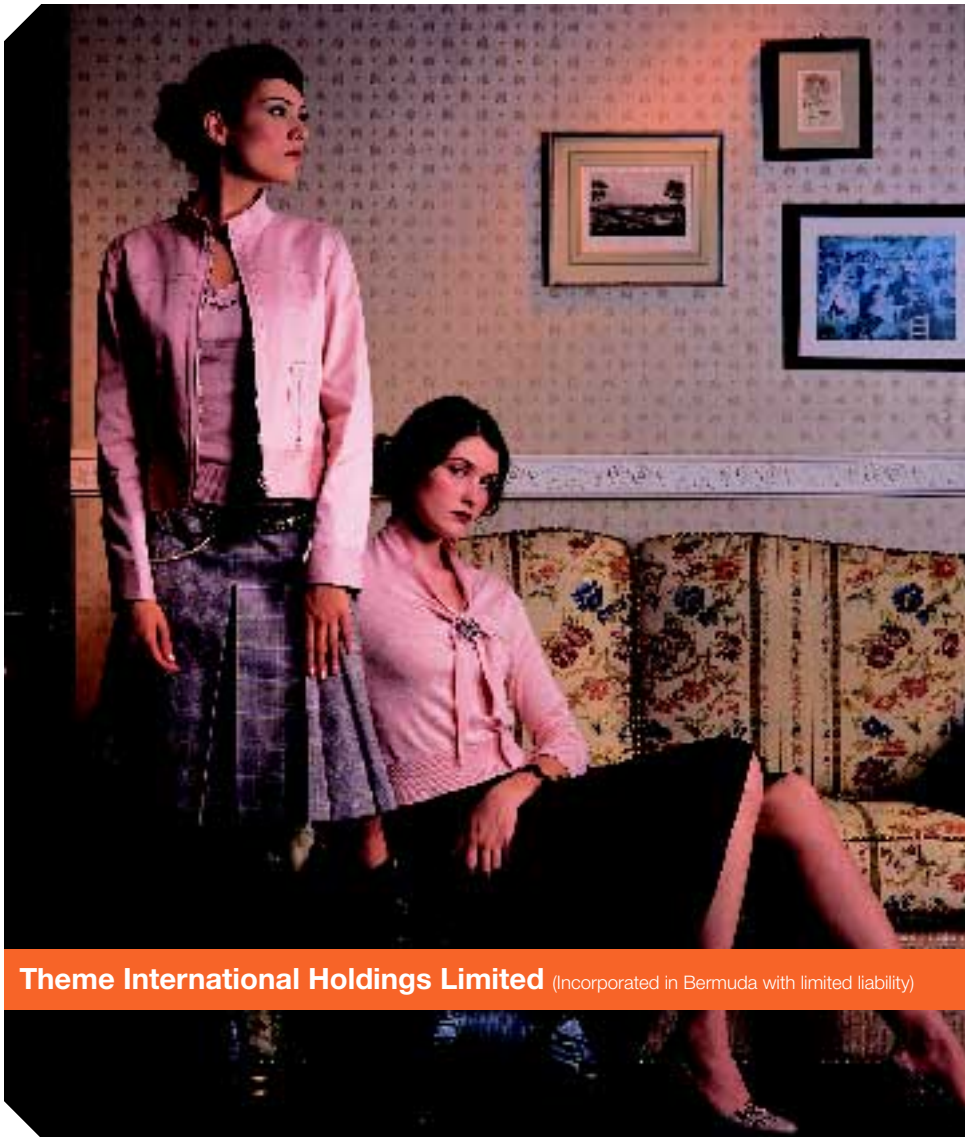


05

INTERIM REPORT 2005



**Theme International Holdings Limited** (Incorporated in Bermuda with limited liability)

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## Results

The Group's turnover for the first half of 2005 was HK\$122 million, representing an increase of 33% from the corresponding period of 2004. The unaudited loss for the period was HK\$4.9 million.

## Own-shop Business

Turnover from own-shop for the first half of the year amounted to HK\$101 million, representing 88% of the total retail turnover, and a 31% increase as compared with the corresponding period of last year, in which the performance of Taiwan and Beijing were particularly outstanding.

## Franchising Business

In the first half of the year, the Group continued to devote its efforts to identify quality franchisees, and kept improving our products, design and services to meet the market demand. Meanwhile, the Group will terminate those non-performing franchising shops, in an attempt to consolidate our franchising business.

## Uniform Business

The loss recorded by the Group for the first half of the year was attributed by the uniform business, due to the expenses incurred for the relocation of our production base to Dongguan at the beginning of the year and unsatisfactory turnover. Currently, orders from customers in both the PRC and Hong Kong have seen improvement in the second half of the year. The Group also participated in tenders for several large projects. We took certain orders from overseas customers and some of them have proceeded to the sampling stage. We have full confidence in further developing the uniform business to capture more market shares in this huge market.

## Outlook

We continue to improve the process of product development and to provide our design department with updated market information for more fashionable designs and the choice of fabrics to meet the market trend, and aim at introducing our new designs for sales in our outlets within the shortest period of time continuously. Our target is to achieve small discount percentage and low inventory level. With our dedicated efforts for improvement and creation of our new image, proven improvements could be seen in terms of product, image and customer service. I believe Year 2005 is regarded as an adjustment period of the Group. We look forward to seeing an increment in the numbers of own-shop and franchisees and hence achieve reasonable returns for the Group.

## Appreciation

I want to thank our shareholders, customers, suppliers as well as our staff and management for their continuous support to us.

### Hui Yip Wing

*Chief Executive Officer*

Hong Kong, 16 September 2005

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

Turnover increased to HK\$122 million for the first half year of 2005, a rise of 33% when compared with the corresponding period of 2004. The unaudited net loss attributable to shareholders was HK\$4.9 million for the six-month period, compared to a profit attributable to shareholders of HK\$354,000 for the last corresponding period.

### Review of Operations

The segmental operating profit and loss is as follows:

	Six months ended		Six months ended	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
	Turnover		Contribution	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Retailing				
Hong Kong & Macau	10,225	10,226	(15)	(426)
Taiwan	65,288	47,776	8,464	5,295
People's Republic of China	35,600	29,901	889	1,762
Singapore	3,008	4,061	186	261
	<u>114,121</u>	<u>91,964</u>	<u>9,524</u>	<u>6,892</u>
Uniform	<u>8,086</u>	<u>-</u>	<u>(3,101)</u>	<u>-</u>
	<u>122,207</u>	<u>91,964</u>		
Less: Corporate Overhead			<u>(9,538)</u>	<u>(7,690)</u>
Operating Loss			<u>(3,115)</u>	<u>(798)</u>

**MANAGEMENT DISCUSSION AND ANALYSIS**

The retail business continued to show improvement. Turnover increased by 24% and contribution before corporate overhead increased by 38%. The loss incurred was mainly due to the uniform business.

The market in Hong Kong remained tough. The number of retail shops was 5, compared to 4 at last year-end, and the result is break even.

In Taiwan, we have strengthened our retail shop network by increase our shops from 53 at last year-end to 56 in June 2005. The turnover recorded an increase of 37% for the first half year, and the contribution increased by 60%.

In Singapore, turnover was dropped due to the closure of one shop, and the contribution is slightly dropped.

In the PRC, the performance of franchised shops were mixed. After closing non-performing franchising shops, the number of shops was 46 in June 2005. However, we have increased our own-shop number from 17 in June 2004 to 35 in June 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources

At 30 June 2005, the aggregate loan amount due to Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited was HK\$55 million.

As of the balance sheet date, a total of about HK\$60 million banking facilities were granted to the Group, of which about HK\$1 million were utilized. There are no other material borrowings as of the balance sheet date. There are no charges on the Group's assets. The Group also has no borrowings at fixed interest rates.

The Group's receivables were mainly denominated in Hong Kong dollars, Renminbi and New Taiwan dollars. The entire bank borrowing and other borrowing were either denominated in Hong Kong dollars or United States dollars. Foreign exchange risks on the recent revaluation of Renminbi is managed by the Group with the use of forward contracts to hedge against the exchange fluctuation. The Group considers that its foreign exchange risk is not significant.



As at 30 June 2005, the current ratio was 2.1. Based on the current cash position and the available banking facilities, the Group should have sufficient liquidity to meet its operational needs.

### Human Resource

As of 30 June 2005, the total number of employees of the Group including factory workers was about 1,400. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. The Group has granted no options during the period.

### General

The Group had no material contingent liabilities as of the balance sheet date. There was no material capital expenditure during the period.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors (the “Board”) of Theme International Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 together with the comparative figures as follows:

### Condensed Consolidated Income Statement

	Notes	Six months ended	
		30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
Turnover	4	122,207	91,964
Cost of sales		(48,466)	(34,712)
Gross profit		73,741	57,252
Other operating income		531	1,569
Selling and distribution expenses		(47,820)	(38,441)
Administrative expenses		(29,567)	(21,178)
Finance costs	5	(1,623)	(2,289)
Loss before taxation	4, 6	(4,738)	(3,087)
Taxation	7	(188)	3,441
Net (loss) profit for the period attributable to equity holders of the Company		(4,926)	354
(Loss) earnings per share – basic	8	(0.10 cent)	0.01 cent



## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheet

		30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		16,483	20,278
Interests in associates		–	–
Investment in securities		–	675
Available-for-sale investments		675	–
		<u>17,158</u>	<u>20,953</u>
<b>Current assets</b>			
Inventories		43,728	45,145
Trade receivables	10	17,394	21,645
Deposits, prepayments and other receivables		16,493	13,175
Amounts due from fellow subsidiaries		7,000	8,676
Bank balances and cash		54,892	64,973
		<u>139,507</u>	<u>153,614</u>
<b>Current liabilities</b>			
Trade payables	11	4,490	13,946
Other payables and accruals		34,580	32,587
Taxation		–	1,708
Bank borrowings		511	6,440
Amount due to immediate holding company	12	22,024	20,560
Amounts due to fellow subsidiaries		4,103	3,479
Amount due to an associate		602	605
		<u>66,310</u>	<u>79,325</u>
<b>Net current assets</b>		<u>73,197</u>	<u>74,289</u>
<b>Total assets less current liabilities</b>		<u>90,355</u>	<u>95,242</u>
<b>Non-current liability</b>			
Amount due to immediate holding company	12	35,000	35,000
		<u>55,355</u>	<u>60,242</u>
<b>Capital and reserves</b>			
Share capital		50,167	50,167
Reserves		(61,832)	(56,945)
		<u>(11,665)</u>	<u>(6,778)</u>
Convertible notes		66,220	66,220
Equity attributable to equity holders of the Company		54,555	59,442
Minority interests		800	800
<b>Total equity</b>		<u>55,355</u>	<u>60,242</u>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the Company										
	Share capital	Share premium account	Contributed surplus	Capital reserve	Shareholder's contribution	Exchange reserve	Accumulated losses	Convertible notes	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005, as originally stated	50,167	846,922	34,503	(2,007)	45,000	(10,194)	(971,169)	66,220	59,442	800	60,242
Effect of changes in accounting policies (Note 3)	-	-	-	2,007	-	-	(2,007)	-	-	-	-
As restated	50,167	846,922	34,503	-	45,000	(10,194)	(973,176)	66,220	59,442	800	60,242
Exchange realignment	-	-	-	-	-	39	-	-	39	-	39
Loss for the period	-	-	-	-	-	-	(4,926)	-	(4,926)	-	(4,926)
<b>At 30 June 2005</b>	<b>50,167</b>	<b>846,922</b>	<b>34,503</b>	<b>-</b>	<b>45,000</b>	<b>(10,155)</b>	<b>(978,102)</b>	<b>66,220</b>	<b>54,555</b>	<b>800</b>	<b>55,355</b>
At 1 January 2004	25,083	798,599	34,503	(2,007)	-	(10,845)	(962,986)	66,220	(51,433)	2,197	(49,236)
Exchange realignment	-	-	-	-	-	(25)	-	-	(25)	-	(25)
Profit for the period	-	-	-	-	-	-	354	-	354	-	354
<b>At 30 June 2004</b>	<b>25,083</b>	<b>798,599</b>	<b>34,503</b>	<b>(2,007)</b>	<b>-</b>	<b>(10,870)</b>	<b>(962,632)</b>	<b>66,220</b>	<b>(51,104)</b>	<b>2,197</b>	<b>(48,907)</b>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
Net cash used in operating activities	(7,338)	(5,718)
Net cash from (used in) investing activities	507	(1,562)
Net cash used in financing activities	(3,305)	(1,938)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(10,136)	(9,218)
Cash and cash equivalents at beginning of period	64,973	24,316
Effect of foreign exchange rate changes, net	55	(107)
	<hr/>	<hr/>
Cash and cash equivalent at end of period	<b>54,892</b>	14,991
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>54,892</b>	14,991
	<hr/>	<hr/>

## Notes to Condensed Consolidated Financial Statements

### 1. Basis of preparation

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### 2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

#### *Business combination*

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarized below:

#### *Goodwill*

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 January 2005. Goodwill previously recognised in reserves amounting to HK\$2,007,000 has been transferred to the Group's retained profits on 1 January 2005. Comparative figures for 2004 have not been restated.

#### *Financial instruments*

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

#### *Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Debt and equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Available-for-sale financial assets" of which the fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investment securities classified under non-current assets with cost less impairment of HK\$675,000 were reclassified to available-for-sale investments on 1 January 2005.

### 3. Summary of the effect of the changes in accounting policies

The cumulative effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarized below:

	As at 31 December 2004 (originally stated) <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	As at 1 January 2005 (restated) <i>HK\$'000</i>
Capital reserve	(2,007)	2,007	-
Accumulated losses	(971,169)	(2,007)	(973,176)
Minority interests	-	800	800
	<u>(973,176)</u>	<u>800</u>	<u>(972,376)</u>
Total effects on equity			
Minority interests	800	(800)	-
	<u>(972,376)</u>	<u>-</u>	<u>(972,376)</u>

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. Segment information

	Turnover		Loss before taxation	
	Six months ended		Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
By principal activity:				
Retailing	114,121	91,964	(14)	(798)
Uniform	8,086	–	(3,101)	–
	<u>122,207</u>	<u>91,964</u>	<u>(3,115)</u>	<u>(798)</u>
Finance costs			(1,623)	(2,289)
Loss before taxation			<u>(4,738)</u>	<u>(3,087)</u>
By geographical area:				
Hong Kong & Macau	16,980	10,226		
Taiwan	65,288	47,776		
People's Republic of China	36,931	29,901		
Singapore	3,008	4,061		
	<u>122,207</u>	<u>91,964</u>		

## 5. Finance costs

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	1,564	2,226
Bank charges	59	63
	<u>1,623</u>	<u>2,289</u>

## 6. Loss before taxation

Loss before taxation for the period is arrived at after charging:

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
Depreciation	4,484	2,496

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 7. Taxation

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
Current tax – Other jurisdictions	(188)	–
Overprovision in prior periods – Hong Kong	–	3,441
Tax (charge) credit for the period	<b>(188)</b>	<b>3,441</b>

No Hong Kong profits tax have been provided for the six months ended 30 June 2005 (Six months ended 30 June 2004 : Nil) as the Group had no assessable profit arising in Hong Kong during the period. Taxes on profits arising 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.

Prior period's amount represented overprovision of taxation in prior years.

## 8. (Loss) earnings per share

The calculation of basic and diluted (loss) earnings per share for the period ended 30 June 2005 together with the comparative figures for 2004 are calculated as follows:

	Six months ended	
	30 June 2005 (Unaudited) HK\$'000	30 June 2004 (Unaudited) HK\$'000
(Loss) profit for the purpose of basic and diluted (loss) earnings per share	<b>(4,926)</b>	<b>354</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>5,016,658,804</b>	2,627,773,659
Effect of dilutive potential ordinary shares assumed conversion of convertible notes	<b>N/A</b>	<b>N/A</b>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<b>5,016,658,804</b>	2,627,773,659

The weighted average number of ordinary shares for the period ended 30 June 2004 for the purposes of basic and diluted earnings 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, which was completed on 17 November 2004.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The calculation of diluted (loss) earnings per share for both periods 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.

### 9. Interim dividend

The directors do not declare the payment of an interim dividend to shareholders for the six months ended 30 June 2005 (Six months ended 30 June 2004: Nil).

### 10. Trade receivables

An aged analysis of the trade receivables as at the reporting date is as follows:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Current to 90 days	15,369	21,499
91 to 180 days	1,300	47
181 to 360 days	620	99
Over 360 days	105	–
	<b>17,394</b>	<b>21,645</b>

The Group allows an average credit period of 30 to 90 days to its trade debtors.

### 11. Trade payables

An aged analysis of the trade payables as at the reporting date is as follows:

	<b>30 June 2005 (Unaudited) HK\$'000</b>	31 December 2004 (Audited) HK\$'000
Current to 90 days	509	10,541
91 to 180 days	521	23
181 to 360 days	19	42
Over 360 days	3,441	3,340
	<b>4,490</b>	<b>13,946</b>

### 12. Amount due to immediate holding company

The loan amount of HK\$55 million was unsecured and interest bearing at Hong Kong Prime Rate, in which HK\$20 million and HK\$35 million are repayable by 31 December 2005 and 31 December 2006 respectively.



## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**13. Related party transactions**

The Group had the following material transactions with related parties during the period:

	<i>Notes</i>	<b>Six months ended</b>	
		<b>30 June 2005 (Unaudited) HK\$'000</b>	<b>30 June 2004 (Unaudited) HK\$'000</b>
Interest expenses payable to the holding company	<i>(i)</i>	<b>1,464</b>	2,113
Rental charges to a fellow subsidiary	<i>(ii)</i>	<b>210</b>	210
Subcontracting fee income received from fellow subsidiaries	<i>(iii)</i>	<b>3,492</b>	4,576
Management fee payable to a fellow subsidiary	<i>(iv)</i>	<b>–</b>	2,416

*Notes:*

- (i) Interest expenses were payable to the holding company on the loan advance of HK\$55 million (30 June 2004: HK\$85 million) bearing interest at Hong Kong Prime Rate.
- (ii) Rental charges were payable to a subsidiary of the ultimate holding company with reference to the prevailing market rate of the office premise.
- (iii) Subcontracting fee income receivable from subsidiaries of the ultimate holding company were charged in the normal course of business and at a consideration decided between parties with reference to the prevailing market price.
- (iv) Management fee was payable to a subsidiary of the ultimate holding company for the provision of (a) computer systems and data processing services, (b) financial and management accounting services, (c) human resources support services, (d) office administration services and (e) company secretarial services.

**14. Contingent liability**

As at 30 June 2005, there was no material contingent liability (30 June 2004 : Nil).

## Corporate Governance

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, only with deviations from code provisions A.4.2 and B.1.1 of the Code in respect of service term and rotation of directors and establishment of a remuneration committee.

Under the code provisions A.4.2 and B.1.1 of the Code, (a) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; and (b) a remuneration committee should be established according to provision B.1.1.

### *Code Provision A.4.2*

According to Bye-law 87 of the Bye-laws of the Company then in effect before 31 May 2005, one-third of the Directors for the time being shall retire from the office by rotation at each annual general meeting provided that the Chairman of the Board and/or the Managing Director of the Company shall not be subject to retirement by rotation. The Directors to retire by rotation shall include any Directors who wishes to retire and not to offer himself for re-election, or those who have been longest in office since their last re-election or appointment. However, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. As the Chairman of the Board and/or the Managing Director of the Company are not subject to retirement by rotation under the Bye-laws of the Company, this constitutes a deviation from the code provision A.4.2 of the Code. According to Bye-law 86(2) of the Bye-laws of the Company then in effect before 31 May 2005, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall be eligible for re-election, this also constitutes a deviation from the code provision A.4.2 of the Code.

To comply with the code provision A.4.2 of the Code, the relevant amendment to Bye-laws 87 and 86(2) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of Company held on 31 May 2005 whereby the Chairman and/or the Managing Director of the Company are/is now subject to retirement by rotation and the newly appointed director shall be subject to re-election at the first general meeting after their appointment.

## OTHER INFORMATION

### *Code Provision B.1.1*

To comply with the Code, a remuneration committee was established on 22 August 2005 with specific written terms of reference which deal clearly with its authority and duties. The members of the remuneration committee comprises Mr. Mak Kam Sing, Professor Yeung Kwok Wing and Mr. Wong Shiu Hoi, Peter. All of the members of the remuneration committee are independent non-executive directors. The term of reference of the remuneration committee has been posted on the website of the Company.

### **Model Code for Securities Transactions by Directors**

For the six months period to 30 June 2005, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2005, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

### **Purchase, Sale or Redemption of the Listed Securities of the Company**

During the six months ended 30 June 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

### **Review of Account**

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and in the course has discussed with the management, internal auditor as well as external auditor for the internal controls and financial reporting matters relating to the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2005.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2005, the interests and short positions of the directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

### (i) Long Positions in the Company's Shares and Underlying Shares

Name of director	Nature of interest	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of the Company's share capital
Lam Foo Wah	Corporate	3,762,494,100 (Note 1)	959,707,594 (Note 2)	4,722,201,694	94.13%

Notes:

1. Mr. Lam Foo Wah has the corporate interest in 3,762,494,100 ordinary shares of the Company pursuant to the SFO as a result of his shareholding in High Fashion International Limited ("HF") (a company listed on the Stock Exchange). 3,762,494,100 shares of the Company are registered in name of Navigation Limited, a wholly-owned subsidiary of HF.
2. Mr. Lam Foo Wah has the corporate interest in 959,707,594 underlying shares of the Company pursuant to the SFO as a result of his shareholding in HF. Navigation Limited owned approximately HK\$66 million convertible notes that can be converted into 959,707,594 new shares of the Company.

## OTHER INFORMATION

**(ii) Long Positions in the Company's Debentures**

Mr. Lam Foo Wah is deemed to have an interest in HK\$66,219,824 convertible notes which are beneficially owned by Navigation Limited, a wholly owned subsidiary of High Fashion International Limited.

**(iii) Long Positions in the Shares of Associated Corporations***(I) High Fashion International Limited – Ultimate Holding Company of the Company*

Name of director	Notes	Number of ordinary shares held and nature of interests			Number of underlying shares held (Note 3)	Total	Percentage of the associated corporation's issued capital
		Personal	Family	Other			
Lam Foo Wah	1, 2	3,800,000	-	129,013,986	-	132,813,986	39.87%
Hui Yip Wing		-	2,652,007	-	-	2,652,007	0.80%
Wong Shing Loong, Raymond		2,600,000	-	-	1,000,000	3,600,000	1.08%

*(II) High Fashion Knitters Limited – Fellow Subsidiary of the Company*

Name of director	Note	Nature of interest	Number of ordinary shares held	Percentage of the fellow subsidiary's issued capital
Lam Foo Wah	4	Controlled corporation	5,339,431	35.60%

*Notes:*

1. Mr. Lam Foo Wah is deemed to have an interest in 94,096,419 ordinary shares of HF which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have an interest in 34,917,567 ordinary shares of HF which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
3. The underlying shares represent the options granted to the directors by HF under HF's share option scheme.
4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 30 June 2005, none of the directors, chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules. Furthermore, save as disclosed in the "Share Options" section below, at no time during the six months ended 30 June 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **Share Options**

Pursuant to the Company's share option scheme, there were no outstanding options at the beginning and at the end of the six months period ended 30 June 2005. No options were granted, exercised, cancelled or lapsed under the existing share option scheme during the period.

Apart from the Company's share option scheme, during the six months ended 30 June 2005, no rights were granted to the directors, chief executives of the Company, or any of their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company.

## OTHER INFORMATION

### Substantial Shareholders

As at 30 June 2005, the interests of the following substantial shareholders, other than directors and chief executives of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of SFO:

### Long Positions in the Company's Shares and Underlying Shares

Name	Capacity	Number of ordinary shares held	No. of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
High Fashion International Limited*	Through controlled corporation	3,762,494,100	959,707,594	4,722,201,694	94.13%

\* *The above interest has also been disclosed as an interest of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.*

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### Members of the Board

As at the date of this interim report, the Board of the Company comprises of (1) executive directors: Mr. Lam Foo Wah, Mr. Hui Yip Wing and Mr. Wong Shing Loong, Raymond; and (2) independent non-executive directors: Professor Yeung Kwok Wing, Mr. Mak Kam Sing and Mr. Wong Shiu Hoi, Peter.