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. Its immediate holding company is Navigation Limited ("Navigation"), a wholly-owned subsidiary of High Fashion and is incorporated in the British Virgin Islands ("BVI"). The address of the registered office and principal place of business of the Company is disclosed in the corporate information to the annual report.

The Company acts as an investment holding company. The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, 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 "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants 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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has 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 years are prepared and presented:

Business combinations

In the current year, 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 years, 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 capital reserve 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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – continued

Financial Instruments

In the current year, 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.

At 31 December 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in equity securities amounting to HK$675,000 are classified as "investment securities" and are carried at cost less impairment losses (if any). From 1 January 2005 onwards, the Group classified and measured its equity securities in accordance with HKAS 39. Investment securities classified under non-current assets of HK$675,000 were reclassified to available-for sale investments on 1 January 2005.

2A. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The Group has not early applied the following new standards amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)–INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC)–INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC)–INT 6	Liabilities arising from participating in a specific market–waste electrical and electronic equipment[3]
HK(IFRIC)–INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 Effective for accounting periods beginning on or after 1 January 2007.

2 Effective for accounting periods beginning on or after 1 January 2006.

3 Effective for accounting periods beginning on or after 1 December 2005.

4 Effective for accounting periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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

Subcontracting fee income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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.

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 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 of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 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 as the parent 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Inventories comprise raw materials, work-in-progress and finished goods. Cost includes direct materials, direct labour costs and overheads that have been incurred in bringing the inventories and work in progress to their present location and condition and is calculated using the weighted average method. Net realisable value is estimated by management and is determined by reference to the selling price less all costs to completion and costs to be incurred in selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The accounting policy adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables (including trade receivables, deposits, prepayments and other receivables and amounts due from fellow subsidiaries) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial assets – continued

Available-for-sale financial assets

The Group's available-for-sale financial assets comprised an unlisted equity investment.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables and accrued charges, amounts due to immediate holding company, fellow subsidiaries and an associate and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

A convertible note will be settled only by the Company exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset for a fixed number of its own shares is an equity instrument. Accordingly, any consideration received for such a convertible note is credited directly to equity.

Changes in the fair value of an equity instrument are not recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial liabilities and equity – continued

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Impairment losses

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Allowance for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade receivables, other receivables, trade payables, other payables and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk.

Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing bank borrowings and loan from immediate holding company which carries interest at variable rates. The interest rate and terms of repayment of bank borrowings and loan from immediate holding company of the Group are disclosed in notes 24 and 34 respectively.

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. Since the Group's borrowings are short term, the effect from interest rate fluctuation is not significant.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's bank balances are deposited with banks of high credit quality in Hong Kong and the Group has exposure limit to any single financial institution.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group has classified certain equity investments as available-for-sale investments and is therefore exposed to equity security price risk.

Liquidity risk

The Group has recurring operating losses and there was net operating cash outflow for the year ended 31 December 2005, which is exposed to liquidity risk. In order to mitigate the liquidity risk, the management obtained bank facilities and loan from immediate holding company at the balance sheet date (see notes 24 and 34 respectively for details). In this regard, the directors of the Company consider that the Group's liquidity risk is significantly reduced and are satisfied that the Group will be able to meet in full its finance obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

6. TURNOVER

Turnover represents the 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:

	2005	2004
	HK$'000	HK$'000
Sales of goods	251,625	194,992
Subcontracting fee income	6,915	6,273
	258,540	201,265

7. 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:

7. SEGMENT INFORMATION – continued

Income statement

	Hong Kong and Macau		People's Republic of China ("PRC")		Taiwan		Singapore		Elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover												
External sales	**36,074**	25,376	**88,479**	65,322	**127,758**	103,299	**6,229**	7,268	**–**	–	**258,540**	201,265
Inter-segment sales	**46,237**	45,279	**97,239**	58,914	**–**	–	**–**	–	**(143,476)**	(104,193)	**–**	–
	82,311	70,655	**185,718**	124,236	**127,758**	103,299	**6,229**	7,268	**(143,476)**	(104,193)	**258,540**	201,265
Segment results	**(4,763)**	(7,424)	**(585)**	(5,537)	**4,533**	6,744	**(183)**	(156)			**(998)**	(6,373)
Interest income											**214**	60
Finance costs											**(3,688)**	(4,673)
Loss before taxation											**(4,472)**	(10,986)
Taxation credit											**441**	1,406
Loss for the year											**(4,031)**	(9,580)

Inter-segment sales are charged at prevailing market rates.

7. SEGMENT INFORMATION – continued

Balance sheet

	Hong Kong and Macau		PRC		Taiwan		Singapore		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS										
Segment assets	**19,869**	53,300	**72,893**	71,747	**53,597**	47,520	**2,682**	2,000	**149,041**	174,567
LIABILITIES										
Segment liabilities	**11,590**	12,347	**20,091**	23,691	**9,956**	13,954	**183**	625	**41,820**	50,617
Unallocated corporate liabilities									**53,866**	63,708
Consolidated total liabilities									**95,686**	114,325

7. SEGMENT INFORMATION – continued

Other information

	Hong Kong and Macau		PRC		Taiwan		Singapore		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Additions to property, plant and equipment	**1,399**	3,278	**8,036**	8,990	**5,568**	6,127	**253**	6	**15,256**	18,401
Depreciation	**1,219**	900	**4,777**	1,921	**4,446**	3,021	**135**	164	**10,577**	6,006
(Gain) loss on disposal of property, plant and equipment	**27**	201	**(1,469)**	42	**380**	277	**7**	167	**(1,055)**	687
Impairment losses in respect of leasehold land and buildings reversed in the income statement	**–**	–	**–**	(1,172)	**–**	–	**–**	–	**–**	(1,172)
Impairment losses in respect of property, plant and equipment recognised in the income statement	**–**	–	**–**	2,860	**–**	–	**–**	–	**–**	2,860
(Write back) allowance for obsolete inventories	**112**	3,948	**(2,012)**	(1,474)	**1,031**	623	**(25)**	(154)	**(894)**	2,943
Allowance on bad and doubtful debts	**413**	–	**–**	–	**–**	–	**–**	–	**413**	–

7. SEGMENT INFORMATION – continued

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").

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

	Turnover by business segments	
	2005	2004
	HK$'000	HK$'000
Fashion	**237,706**	195,631
Uniform	**20,834**	5,634
	258,540	201,265

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 segment assets		Additions to property, plant and equipment	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fashion	**145,072**	167,578	**15,238**	12,060
Uniform	**3,969**	6,989	**18**	6,341
	149,041	174,567	**15,256**	18,401

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Bank charges	**153**	203
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	**130**	222
Amount due to immediate holding company	**3,405**	4,248
	3,688	4,673

9. LOSS BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Loss before taxation has been arrived at after charging (crediting):		
(Write back) allowance for obsolete inventories (included in cost of sales)	**(894)**	2,943
Cost of inventories recognised as expense	**69,748**	66,070
Allowance for bad and doubtful debts	**413**	–
Depreciation	**10,577**	6,006
Directors' remuneration *(note 11)*	**2,819**	196
Auditors' remuneration	**886**	638
Operating lease rentals in respect of rented premises	**54,230**	44,700
(Gain) loss on disposal of property, plant and equipment	**(1,055)**	687
Net foreign exchange gain	**(1,547)**	(2,424)
Other staff costs		
Salaries and allowances	**60,521**	47,750
Retirement benefits scheme contributions	**2,695**	248
	63,216	47,998
Interest income	**(214)**	(60)
Sub-letting rental income (included in selling and distribution expenses)	**(3,339)**	(3,337)

Allowance for obsolete inventories is reversed when the relevant inventory was sold.

10. TAXATION CREDIT

	2005	2004
	HK$'000	HK$'000
The credit comprises:		
Current tax charge:		
PRC and other jurisdictions	**(1,458)**	(2,035)
Overprovision in prior years:		
Hong Kong	**–**	3,441
Deferred taxation credit *(note 26)*	**1,899**	–
	441	1,406

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.

10. TAXATION CREDIT – continued

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

	2005 HK$'000	2004 HK$'000
Loss before taxation	**4,472**	10,986
Tax at the applicable tax rate of 25% (2004: 33%)	**1,118**	3,626
Tax effect of income not taxable for tax purpose	**2,894**	4,266
Tax effect of expenses not deductible for tax purpose	**(1,218)**	(5,634)
Utilisation of estimated tax losses previously not recognised	**2,861**	4,107
Tax effect of estimated tax losses not recognised	**(4,239)**	(7,089)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,344)**	(1,311)
Effect of tax exemptions granted to PRC subsidiaries	**369**	–
Overprovision in prior years	**–**	3,441
Taxation credit for the year	**441**	1,406

During the year, the taxation is mainly arisen from the subsidiary operating in Taiwan, the prevailing tax rate is 25%.

In year 2004, the taxation is mainly arisen from the subsidiaries operating in PRC, the prevailing tax rate is 33%.

11. DIRECTORS EMOLUMENTS

The emoluments paid or payable to each of the 6 (2004: 6) directors were as follows:

	Lam Foo Wah HK$'000	Hui Yip Wing HK$'000	Wong Shing Loong, Raymond HK$'000	Mak Kam Sing HK$'000	Yeung Kwok Wing HK$'000	Wong Shiu Hoi, Peter HK$'000	Total 2005 HK$'000
Fees	–	–	–	80	80	80	240
Other emoluments							
Salaries and other benefits	–	2,567	–	–	–	–	2,567
Contributions to retirement benefits schemes	–	12	–	–	–	–	12
Total emoluments	–	2,579	–	80	80	80	2,819

	Lam Foo Wah HK$'000	Hui Yip Wing HK$'000	Wong Shing Loong, Raymond HK$'000	Mak Kam Sing HK$'000	Yeung Kwok Wing HK$'000	Wong Shiu Hoi, Peter HK$'000	Total 2004 HK$'000
Fees	–	–	–	80	80	36	196
Other emoluments							
Salaries and other benefits	–	–	–	–	–	–	–
Contributions to retirement benefits schemes	–	–	–	–	–	–	–
Total emoluments	–	–	–	80	80	36	196

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.

12. EMPLOYEES EMOLUMENTS

Of the five highest paid individuals in the Group, one (2004: Nil) was director of the Company whose emoluments are included in the disclosures in note 11. The emoluments of the remaining four (2004: five) highest paid individuals were as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and allowances	**2,938**	3,063
Retirement benefits scheme contributions	**30**	44
	2,968	3,107

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.

13. LOSS PER SHARE

The calculation of basic and diluted loss per share for the year 31 December 2005 together with the comparative figures for 2004 are based on the following data:

	2005	2004
	HK$'000	HK$'000
Loss for the purpose of basic and diluted loss per share attributable to equity holders of the parent	**(4,031)**	(8,183)
	Number	Number
Weighted average number of ordinary shares for the purpose of basic loss per share including ordinary shares that will be issued upon the conversion of a mandatory convertible notes from the beginning of the date the contract was entered into	6,936,074,292	3,694,500,366

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
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
Additions	–	571	13,747	938	15,256
Disposals	(5,278)	(2,163)	(8,031)	(214)	(15,686)
Exchange realignment	–	185	(341)	24	(132)
At 31 December 2005	–	8,333	48,195	1,997	58,525
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

14. PROPERTY, PLANT AND EQUIPMENT – continued

	Leasehold land and buildings HK$'000	Plant and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2004	2,107	6,795	29,100	807	38,809
Provided for the year	–	601	9,762	214	10,577
Eliminated on disposals	(2,107)	(1,096)	(7,002)	(170)	(10,375)
Exchange realignment	–	123	(269)	20	(126)
At 31 December 2005	–	6,423	31,591	871	38,885
NET BOOK VALUES					
At 31 December 2005	–	1,910	16,604	1,126	19,640
At 31 December 2004	3,171	2,945	13,720	442	20,278

At 31 December 2004, the Group's leasehold land and buildings included above are situated in the PRC and are held under long term lease.

The above items of property, plant and equipment are depreciated on a straight-line basis 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%

15. INTERESTS IN ASSOCIATES

	2005 HK$'000	2004 HK$'000
Cost of investment in associates, unlisted	**2,000**	2,000
Share of post-acquisition losses	**(2,000)**	(2,000)
	–	–

Details of the Group's associates at 31 December 2005 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

15. INTERESTS IN ASSOCIATES – continued

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$'000	HK$'000
Total assets	**–**	–
Total liabilities	**(1,569)**	(1,566)
Net liabilities	**(1,569)**	(1,566)
Group's share of net assets of associates	**–**	–
Revenue	**–**	–
Loss for the year	**(3)**	(3)
Group's share of result of associates for the year	**–**	–

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant audited financial statements of associates, both for the year and cumulatively, are as follows:

	2005	2004
	HK$'000	HK$'000
Unrecognised share of losses of associates for the year	**1**	1
Accumulated unrecognised share of losses of associates	**1,404**	1,403

16. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

	HK$'000
Unlisted equity investments, at cost	1,000
Less: Impairment loss recognised	(325)
	675

The above unlisted investments represent investments in unlisted equity securities issued by a private entity incorporated in the BVI. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The directors reviewed the carrying value of the available-for-sale investments by reference to the carrying amount of the net assets in the relevant audited financial statements and considered that no additional impairment loss is required.

17. INVESTMENTS IN SECURITIES

Investment securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to available-for-sale investments (see note 2 for details).

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

18. INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	**7,894**	7,779
Work in progress	**3,035**	3,062
Finished goods	**38,566**	34,304
	49,495	45,145

19. TRADE RECEIVABLES

The Group allows an average credit period range from 30 days to 60 days to its trade customers.

The following is an aged analysis of the trade receivables at the balance sheet date:

	2005 HK$'000	2004 HK$'000
Within 90 days	**24,302**	21,499
91 to 180 days	**2,163**	47
181 to 360 day	**657**	99
	27,122	21,645

The directors consider that the carrying amount of trade receivables approximates to their fair value.

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposits, prepayments and other receivables principally comprise amounts receivable from third parties. The directors consider that the carrying amount of the other receivables approximates to their fair value.

21. BANK BALANCES AND CASH

At 31 December 2005, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK$12,470,000 (2004: HK$13,494,000), respectively. RMB is not freely convertible into other currencies. Other bank balances and cash are denominated in Hong Kong dollars which carry interest at prevailing market rate.

The directors consider that the carrying amount of the bank balances and cash approximates to their fair value.

22. TRADE PAYABLES

The following is an aged analysis of the trade payables at the balance sheet date:

	2005	2004
	HK$'000	HK$'000
Within 90 days	**13,856**	10,541
91 to 180 days	**4**	23
181 to 360 days	**66**	42
Over 360 days	**3,228**	3,340
	17,154	13,946

The directors consider that the carrying amount of trade payables approximates to their fair value.

23. OTHER PAYABLES AND ACCRUED CHARGES

Other payables and accrued charges comprise amounts outstanding for trade purpose and ongoing costs.

The directors consider that the carrying amount of the other payables and accrued charges approximates to their fair value.

24. BANK BORROWINGS

	2005	2004
	HK$'000	HK$'000
The bank borrowings denominated in Hong Kong dollars are unsecured and repayable on demand or within one year:		
Bank loans (Note i)	**–**	2,162
Trust receipt loans (Note ii)	**1,750**	4,278
	1,750	6,440

Notes:

(i) The bank loans are variable rate borrowings which carry interest at London Inter Bank Offered Rate ("LIBOR") plus 1.2% (2004: LIBOR plus 1.2%) per annum.

(ii) The trust receipt loans are variable rate borrowings which carry interest at Hong Kong Inter Bank Offered Rate ("HIBOR") plus 2.5% (2004: HIBOR plus 2.5%) per annum.

The directors consider that the carrying amount of bank borrowings approximates to their fair value.

As at the balance sheet date, the Group has undrawn borrowing facilities with floating rate expiring within one year amounting to approximately HK$21,450,000 (2004: HK$40,360,000).

25. SHARE CAPITAL

	Number of shares	Amount
	'000	HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	50,000,000	500,000
Issued and fully paid:		
At 1 January 2004	2,508,329	25,083
Issue of shares pursuant to Open Offer (note)	2,508,330	25,084
At 31 December 2004 and 31 December 2005	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 proceeds after expenses, totalling approximately HK$73,407,000 were used for expansion of its retailing business in the PRC and development of uniform manufacturing and trading business and for general working capital.

26. DEFERRED TAXATION

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

	Bad and doubtful debts HK$'000	Allowance on obsolete inventories HK$'000	Unrealised exchange losses HK$'000	Total HK$'000
At 1 January 2004, 31 December 2004 and 1 January 2005	–	–	–	–
Credit to income statement for the year	91	870	938	1,899
Exchange realignment	(3)	(25)	(27)	(55)
At 31 December 2005	88	845	911	1,844

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$762,377,000 (2004: HK$756,868,000) 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.

The ultimate realisation of these deferred tax assets depend principally on Taiwan segment achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit and loss projections of this business, it is more probable that the Group can fully utilise the deferred tax assets recognised within the utilisation periods. It may be necessary for some or all of these deferred tax assets be reduced and charged to the profit and loss account if there is a significant adverse change in the projected performance and resulting projected taxable profits of the business.

27. CONVERTIBLE NOTES

The convertible notes payable to the immediate holding company are unsecured, interest-free and are convertible in whole or in part by the noteholders into shares and they were originally due to be mandatorily converted into ordinary shares on 30 August 2005. Such mandatory conversion was 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. Up to 31 December 2005, such condition was not satisfied and the mandatory conversion will continue to be postponed.

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

In view of the convertible notes will be settled by the Company delivering a fixed number of its own shares for no future consideration, it is accounted for as an equity instrument according to HKAS 32 Financial Instrument: Disclosure and Presentation" (see note 3 for details).

28. 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.

28. SHARE OPTION SCHEME – continued

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 Company's 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 dates.

29. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2004, interest on loan from immediate holding company of HK$560,000 was settled through the current account.

30. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2005	2004
	HK$'000	HK$'000
Within one year	**28,570**	25,611
In the second to fifth year inclusive	**33,423**	36,646
	61,993	62,257

Operating lease payments represent rentals payable by the Group for certain of its office premises, retail shops, factories and office equipment. Leases are negotiated for terms ranging from one to five years and rentals are fixed over the lease terms. In addition to the fixed rentals, pursuant to the terms of certain rental agreements, the Group has to pay a rental based on certain percent of the gross sales of the relevant shop.

30. OPERATING LEASE COMMITMENTS – continued

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under a sub-letting arrangement:

	2005	2004
	HK$'000	HK$'000
Within one year	**4,006**	2,711
In the second to fifth year inclusive	**4,840**	6,543
	8,846	9,254

The tenants have committed for an average term of three years.

31. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**–**	189

32. 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 governments 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.

33. POST BALANCE SHEET EVENT

On 30 March 2006, an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with an independent third party for the acquisition of the trademark, current retail network and part of the fixed and current assets and liabilities at the total consideration of not more than RMB22,000,000 (approximately HK$21,275,000). The acquisition is effective on 1 April 2006. A public announcement on the acquisition according to Rule 14.06(2) of the Listing Rules with The Stock Exchange of Hong Kong Limited is published on 20 April 2006.

34. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with related parties and balances with them as at the balances sheet date, details of which are as follows:

Balances

	2005	2004
	HK$'000	HK$'000
Amounts due from fellow subsidiaries (note i)	**7,210**	8,676
Amounts due to fellow subsidiaries (note i)	**(444)**	(3,479)
Amount due to an associate (note i)	**(602)**	(605)

34. RELATED PARTY TRANSACTIONS – continued

Amount due to immediate holding company

	2005 HK$'000	2004 HK$'000
Current account with immediate holding company (note i)	–	560
Loan repayable within one year (note ii)	**49,000**	20,000
Loan repayable in the second to fifth year inclusive (note ii)	–	35,000
	49,000	55,560
Less: Amount due within one year shown under current liabilities	**(49,000)**	(20,560)
Amount due after one year	–	35,000

Notes:

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

Current accounts with fellow subsidiaries and an associate are operating in nature and aged less than one year.

Current account with immediate holding company of HK$560,000 at 31 December 2004 was fully settled during the year ended 31 December 2005.

The directors consider that the carrying amount of the balances listed above approximates to their fair value.

(ii) As at 31 December 2004, HK$100 million loan facilities were granted by Navigation 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 and the Company, HK$45 million was waived and the loan amount was reduced to HK$55 million at 31 December 2004, in which HK$20 million and HK$35 million are repayable by 31 December 2005 and 31 December 2006, respectively. During the year ended 31 December 2005, HK$6 million was repaid to Navigation. The remaining loan payable of HK$49 million at 31 December 2005 was classified as current liabilities.

The directors consider that the carrying amount of the balances listed above approximates to their fair value.

34. RELATED PARTY TRANSACTIONS – continued

Transactions

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

	2005 HK$'000	2004 HK$'000
Interest expense charged by immediate holding company	**3,405**	4,248
Rental expense paid to a fellow subsidiary	**420**	420
Subcontracting fee received from fellow subsidiaries	**6,915**	6,273
Service fee charged by a fellow subsidiary	**–**	3,687

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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY AT 31 DECEMBER 2005

Name of subsidiary	Place of incorporation or registration/ operations	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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY AT 31 DECEMBER 2005 – continued

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
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
Stage II Limited	Hong Kong	HK$800,000	100	Retailing of garments
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 (China) Limited	Hong Kong	HK$1	100	Investment holding
Theme Corporate Fashion (Europe) Limited	Hong Kong	HK$1	100	Trading of garments
Theme Corporate Fashion (Overseas) Limited	Hong Kong	HK$1	100	Trading of garments

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY AT 31 DECEMBER 2005 – continued

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
Theme (Dongguen) Limited	BVI	US$1	100	Trading of garments
Theme Garments (Shenzhen) Company Limited	PRC	RMB10,000,000	100	Retailing and 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	Retailing and trading of garments
Theme International Holdings (B.V.I.) Limited ("Theme BVI")	BVI	US$10,001	100	Investment holding
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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY AT 31 DECEMBER 2005 – continued

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

None of the subsidiaries had 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.

(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 is therefore accounted for as a subsidiary of the Group.

Pursuant to an agreement made between the Group and the PRC joint venture partner in 2004, the remaining 51% shareholding of Guangdong Theme-Huayu was transferred to the Group and Guangdong Theme-Huayu became the wholly foreign-owned enterprise.

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

36. INVESTEE COMPANIES

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.

Upon application of HKAS 27 Consolidated and separate financial statements", the Emporium Group is not regarded as a subsidiary of the Group and has not been consolidated into the Group's financial statements for both years ended 31 December 2005 and 2004 since the control on the Emporium Group has been lost.

The carrying value of the investment cost of the investee company has been fully impaired.

36. INVESTEE COMPANIES – continued

Details of the Group's investee companies at 31 December 2005, none of which are audited by Deloitte Touche Tohmatsu, are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	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)	96.9	Property investment and investment holding
		S$16,800,000 (Class B)	100	
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
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 2005 is 56%.