

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company are disclosed on page 83 to the annual report.

The functional currency of the group entities is Renminbi (“RMB”), the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and conveniences of the financial statements users, the results and financial position of the Group are presented in Hong Kong dollars.

The principal activities of the Company and its subsidiaries are the manufacture, retailing and trading of garments. The Company and its subsidiaries are referred to as the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the Group’s results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁵
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁶
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁷
HK(IFRIC) – INT 12	Service concession arrangements ⁸

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

² Effective for accounting periods beginning on or after 1 January 2009.

³ Effective for accounting periods beginning on or after 1 March 2006.

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

⁵ Effective for accounting periods beginning on or after 1 June 2006.

⁶ Effective for accounting periods beginning on or after 1 November 2006.

⁷ Effective for accounting periods beginning on or after 1 March 2007.

⁸ Effective for accounting periods beginning on or after 1 January 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain 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 Hong Kong Financial Reporting Standards 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 Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition, if any, is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets 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.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities 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 jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), 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 jointly controlled entity.

Any excess of the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discount and sales related tax.

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

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.

Commission income are recognised when services are provided.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and 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 consolidated income statement in the year in which the item is derecognised.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of cost of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. 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 asset) is included in the income statement in the year in which the item is derecognised.

Intangible assets

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Intangible assets other than goodwill

Intangible assets other than goodwill acquired separately and with finite useful lives are initially measured at cost. After initial recognition, intangible assets other than goodwill with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets other than goodwill with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset other than goodwill are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets other than goodwill with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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 consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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. 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation

Income tax expense 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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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, associates and jointly controlled entities, except where the Group as the parent or a venturer 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

All borrowing costs are recognised and included in finance costs in the consolidated income statement in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using first-in, first-out method. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits scheme are charged as expenses when employees have rendered service entitling them to the contributions.

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 instruments. 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 mainly loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are 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, loans and receivables (including trade and bills receivables, deposits and other receivables and bank balances) 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.

Available-for-sale financial assets

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 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 be reversed in subsequent periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

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 Group 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, bills payable, other payables and accruals, amounts due to jointly controlled entities, amount due to an associate, obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily forward contracts) to hedge its exposure against the forecast purchases. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments. This hedge is classified as cash flow hedges when hedges are made to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. The accounting treatments of cash flows hedges are set out below:

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial liabilities and equity *(Cont'd)*

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit and loss.

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.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Impairment losses (other than goodwill)

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

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.

Allowances for bad and doubtful debts

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine the impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Income taxes

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy. In cases where the tax charged by IRD are different from the estimated amounts, a material tax charge may arise. (see Note 11 for details).

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, bank balances, trade and bills payables, other payables, amounts due to jointly controlled entities, obligations under finance leases and bank borrowings. 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.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. The Group requires all its group entity to use foreign exchange forward contracts to eliminate the currency exposures. The forward exchange forward contracts must be in the same currency as the hedged item. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness (see Note 25 for details).

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see Note 28 for details of these borrowings).

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. The management considers the interest rate exposure is limited and will consider hedging significant interest rate exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. FINANCIAL INSTRUMENTS *(Cont'd)*

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount the respective recognised financial 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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

6. REVENUE

Revenue, which is also turnover of the Group, represents the amount received and receivable for goods sold by the Group, less returns and allowances. An analysis of the Group's revenue is as follows:

	2006	2005
	HK\$'000	HK\$'000
Manufacture and trading of garments	1,974,750	1,856,872
Retailing of garments	278,448	251,625
	2,253,198	2,108,497

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions - (i) manufacture and trading of garments and (ii) retailing of garments. These divisions are the basis on which the Group reports its primary segment information.

Consolidated income statement for the year ended 31 December 2006

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	1,974,750	287,107	2,261,857
Inter-segment sales	-	(8,659)	(8,659)
Total	1,974,750	278,448	2,253,198
RESULT			
Segment result	118,392	(736)	117,656
Other income	11,363	138	11,501
	129,755	(598)	129,157
Increase in fair value of investment properties			4,000
Finance costs			(30,159)
Share of profit of jointly controlled entities			1,176
Profit before taxation			104,174
Income tax expense			(19,030)
Profit for the year			85,144

Notes to the Consolidated Financial Statements

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7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

Consolidated balance sheet as at 31 December 2006

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	1,452,970	229,978	1,682,948
Unallocated corporate assets			104,724
			<hr/>
Consolidated total assets			1,787,672
LIABILITIES			
Segment liabilities	405,377	64,406	469,783
Unallocated corporate liabilities			522,982
			<hr/>
Consolidated total liabilities			992,765

Other information for the year ended 31 December 2006

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	139,296	33,649	172,945
Additions to intangible assets	–	10,000	10,000
Depreciation of property, plant and equipment	47,121	12,530	59,651
Impairment loss on property, plant and equipment	1,000	–	1,000
Loss on disposal of property, plant and equipment	558	237	795
Amortisation of trademarks	687	500	1,187
Allowance (write back) for bad and doubtful debts	4,002	(152)	3,850
Allowance for inventory obsolescence	5,418	1,249	6,667

Notes to the Consolidated Financial Statements

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7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

Consolidated income statement for the year ended 31 December 2005

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	1,856,872	258,540	2,115,412
Inter-segment sales	-	(6,915)	(6,915)
Total	1,856,872	251,625	2,108,497
RESULT			
Segment result	76,425	593	77,018
Other income	1,870	214	2,084
	78,295	807	79,102
Increase in fair value of investment properties			22,400
Finance costs			(26,041)
Share of profit of jointly controlled entities			1,153
Profit before taxation			76,614
Income tax expense			(9,181)
Profit for the year			67,433

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(a) Business segments *(Cont'd)*

Consolidated balance sheet as at 31 December 2005

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	1,209,758	139,313	1,349,071
Unallocated corporate assets			82,066
<hr/>			
Consolidated total assets			1,431,137
<hr/>			
LIABILITIES			
Segment liabilities	300,374	42,524	342,898
Unallocated corporate liabilities			382,097
<hr/>			
Consolidated total liabilities			724,995
<hr/>			

Other information for the year ended 31 December 2005

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	61,730	15,256	76,986
Depreciation of property, plant and equipment	47,790	10,577	58,367
Impairment loss on property, plant and equipment	747	–	747
Gain on disposal of property, plant and equipment	1,573	1,055	2,628
Amortisation of trademarks	692	–	692
Allowance for bad and doubtful debts	2,261	413	2,674
Allowance for (write back) inventory obsolescence	28	(894)	(866)
<hr/>			

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

(b) Geographical segments

The Group's operations are located in the United States of America ("USA"), Europe, Greater China and other areas.

The following table provides an analysis of the Group's sale by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2006 HK\$'000	2005 HK\$'000
USA	1,364,138	1,431,675
Europe	392,703	298,100
Greater China	453,264	348,875
Others	43,093	29,847
	2,253,198	2,108,497

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
USA	172,409	160,348	6,105	1,063
Europe	16,348	11,430	3,150	685
Greater China	1,491,262	1,174,611	156,670	74,985
Others	2,929	2,682	7,020	253
	1,682,948	1,349,071	172,945	76,986

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	22,092	17,173
Finance leases	37	33
Factoring expenses	3,239	2,982
Bank charges	4,791	5,853
	30,159	26,041

9. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of eight (2005: nine) directors were as follows:

	Other emoluments				Total emoluments HK\$'000
	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Performance related incentive payments HK\$'000	
Lam Foo Wah	80	5,070	12	1,000	6,162
Hui Yip Wing	80	2,600	12	-	2,692
Wong Shing Loong, Raymond	80	1,885	12	150	2,127
So Siu Hang, Patricia	80	1,950	12	1,400	3,442
Chan Wah Tip, Michael	120	-	-	-	120
Woo King Wai	120	-	-	-	120
Wong Shiu Hoi, Peter	240	-	-	-	240
Leung Hok Lim	120	-	-	-	120
Total for 2006	920	11,505	48	2,550	15,023

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' REMUNERATION *(Cont'd)*

	Other emoluments				Total emoluments
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Performance related incentive payments	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lam Foo Wah	80	5,070	12	1,000	6,162
Hui Yip Wing	80	2,567	12	–	2,659
Wong Shing Loong, Raymond	80	1,885	12	400	2,377
So Siu Hang, Patricia	80	1,950	12	1,000	3,042
Ip Weng Kun	80	2,220	11	–	2,311
Chan Wah Tip, Michael	80	–	–	–	80
Woo King Wai	80	–	–	–	80
Wong Shiu Hoi, Peter	160	–	–	–	160
Leung Hok Lim	80	–	–	–	80
Total for 2005	800	13,692	59	2,400	16,951

The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

During both years, no emoluments were paid by the Group to the directors as compensation for loss of office or as a discretionary bonus or an inducement to join or upon joining the Group. None of the directors has waived any emoluments in both years.

10. EMPLOYEE'S EMOLUMENTS

In 2006, of the five individuals with the highest emoluments in the Group, four were directors of the Company whose emoluments are included in the disclosures in note 9 above. The salaries and other benefits, contributions to retirement benefits scheme and performance related incentive payments of the remaining one individual amounted to HK\$1,790,000, HK\$12,000 and HK\$200,000 respectively.

The five highest paid individuals in the Group in 2005 are all directors of the Company and details of their emoluments are included in note 9 above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current tax charge:		
Hong Kong	51	1,386
Other jurisdictions	20,035	8,315
Overprovision in prior years:		
Hong Kong	(48)	(663)
Other jurisdictions	(410)	(1,336)
	19,628	7,702
Deferred taxation (note 29)	(598)	1,479
	19,030	9,181

The IRD initiated a tax audit on certain group companies for the years of assessment from 1999/2000 onwards. As a matter of IRD's practice, the IRD has issued assessments to these group companies for the year of assessment 1999/2000 (which would initially be statutorily time-barred after 31 March 2006 but now extended) and, during the course of the audit, there may be a possibility that assessments for subsequent years be issued by the IRD to these group companies. Since the tax audit is still at a fact-finding stage with different views being exchanged with the IRD, the outcome of the tax audit cannot be readily ascertained with any degree of accuracy.

For Hong Kong tax provision purpose, the management has in the current year followed the same basis for making provision as adopted in prior years. In the opinion of the management, the provisions so made are adequate for the purpose mentioned above.

During the year, the Group has purchased tax reserve certificate of approximately HK\$15,582,000 (2005: nil) for conditional standover order of objection against the notice of assessment for the year of assessment 1999/2000 while the objection against the notice of assessment for the year of assessment 2000/01 will be lodged.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax rates of PRC income tax are ranging from 13.2% to 33%. PRC income tax is calculated in accordance with the income tax law in the PRC for both years. Certain subsidiaries operating in the PRC are entitled to a tax exemption for two years commencing from its first profit-making year followed by a 50% reduction in the PRC income tax for three years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. INCOME TAX EXPENSE *(Cont'd)*

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	104,174	76,614
Tax at the income tax rate of 17.5%	18,230	13,407
Effect of different tax rates of subsidiaries operating in other jurisdictions	(213)	876
Tax effect of share of results of jointly controlled entities	(206)	(202)
Tax effect of income not taxable for tax purpose	(3,802)	(12,830)
Tax effect of expenses not deductible for tax purpose	9,450	2,110
Tax effect of tax losses not recognised	4,006	12,266
Utilisation of tax losses previously not recognised	(7,977)	(4,447)
Overprovision in prior years	(458)	(1,999)
Taxation for the year	19,030	9,181

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2006	2005
	HK\$'000	HK\$'000
Cost of inventories recognised as expenses	1,563,169	1,507,171
Depreciation and amortisation		
Owned assets	59,545	57,976
Leased assets	106	391
Amortisation of intangible assets (included in selling and distribution expenses)	1,187	692
Amortisation of prepaid lease payments	2,206	1,327
	63,044	60,386
Allowance for bad and doubtful debts (included in administrative expenses)	3,850	2,674
Allowance for (write back) inventory obsolescence* (included in cost of sales)	6,667	(866)
Auditors' remuneration	4,311	3,274
Operating lease rentals in respect of equipment	148	65
Minimum lease payments in respect of land and buildings	83,399	68,114
Staff costs (including directors' remuneration – note 9)		
Wages, salaries and bonuses	310,912	284,735
Retirement benefits contributions	15,630	13,697
Less: Forfeited contributions	(408)	(85)
	15,222	13,612
	326,134	298,347
Net foreign exchange loss	4,284	4,232
Temporary textile quota expenses	4,599	3,779
Loss (gain) on disposal of property, plant and equipment	795	(2,628)
Gain on disposal of available-for-sale investments	–	(642)
Gain on derivative financial instruments	(8,538)	(23,445)
Gross rental income from investment properties	(8,364)	(8,201)
Less: Outgoings for investment properties rented out	1,291	1,485
Net rental income	(7,073)	(6,716)
Sub-letting rental income	(4,006)	(3,339)
Interest income	(4,428)	(3,155)
Commission income	(8,906)	(798)
Share of tax of jointly controlled entities (included in share of profit of jointly controlled entities)	214	247

* Allowance for obsolete inventory was reversed when the relevant inventory was sold.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Additional final dividend paid for 2005 arising from shares issued under share option scheme	50	–
Interim, paid – HK3 cents per ordinary share (2005: HK3 cents)	10,028	9,995
Proposed final – HK7 cents per ordinary share (2005: HK5 cents)	23,319	16,658
	33,397	26,653
Dividends recognised as distribution during the year	26,736	26,653

The final dividend of HK7 cents (2005: HK5 cents) per share has been proposed by the directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2006 together with the comparative figures for 2005 are based on the following data:

	2006 HK\$'000	2005 HK\$'000
Profit for the purpose of basic and diluted earnings per share attributable to equity holders of the Company	85,118	67,433
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	333,873,165	332,318,673
Effect of dilutive potential ordinary shares assuming exercise of share options	968,067	3,426,494
Weighted average number of ordinary shares for the purpose of diluted earnings per share	334,841,232	335,745,167

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings (Hong Kong) HK\$'000	Buildings (elsewhere) HK\$'000	Con- struction in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1 January 2005	19,900	194,450	9,613	41,734	241,668	65,675	22,879	595,919
Additions	-	7,313	32,742	2,310	11,301	18,695	4,625	76,986
Transfers	-	9,002	(36,253)	(17,932)	25,484	19,084	615	-
Disposals	-	(9,340)	-	(72)	(4,440)	(7,609)	(2,243)	(23,704)
Exchange realignment	-	4,432	136	(195)	3,505	(1)	60	7,937
At 31 December 2005	19,900	205,857	6,238	25,845	277,518	95,844	25,936	657,138
Additions	-	21,661	84,810	8,030	13,606	18,791	6,971	153,869
Acquired on acquisition of business and assets	-	18,816	-	-	9	201	50	19,076
Transfers	-	4,920	(13,330)	-	8,420	(10)	-	-
Disposals	-	(188)	-	(11,327)	(12,056)	(7,623)	(3,234)	(34,428)
Exchange realignment	-	7,825	383	459	9,362	1,776	900	20,705
At 31 December 2006	19,900	258,891	78,101	23,007	296,859	108,979	30,623	816,360
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2005	4,536	33,280	-	20,122	118,341	50,180	14,516	240,975
Provided for the year	398	7,083	-	6,670	27,382	13,875	2,959	58,367
Impairment loss recognised in the income statement	-	747	-	-	-	-	-	747
Eliminated on disposals	-	(5,153)	-	(71)	(2,705)	(6,630)	(1,650)	(16,209)
Transfers	-	216	-	(9,925)	(984)	10,693	-	-
Exchange realignment	-	639	-	(7)	1,279	(9)	29	1,931
At 31 December 2005	4,934	36,812	-	16,789	143,313	68,109	15,854	285,811
Provided for the year	398	10,096	-	3,847	25,279	14,679	5,352	59,651
Impairment loss recognised in the income statement	-	1,000	-	-	-	-	-	1,000
Eliminated on disposals	-	(98)	-	(10,742)	(9,173)	(6,815)	(2,495)	(29,323)
Transfers	-	-	-	-	3	(3)	-	-
Exchange realignment	-	1,679	-	165	4,608	1,776	358	8,586
At 31 December 2006	5,332	49,489	-	10,059	164,030	77,746	19,069	325,725
CARRYING VALUES								
At 31 December 2006	14,568	209,402	78,101	12,948	132,829	31,233	11,554	490,635
At 31 December 2005	14,966	169,045	6,238	9,056	134,205	27,735	10,082	371,327

In 2005, included in buildings (elsewhere) were properties in the PRC with an aggregate amount of HK\$4,500,000, the title of which had been kept by the court in the PRC to secure the Group's application to freeze the assets of its agent to recover the amount owed by the agent to the Group. The pledge was released during the year upon settlement of the case.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	2006	2005
	HK\$'000	HK\$'000
Buildings in Hong Kong:		
Medium-term leases	14,568	14,966
Buildings outside Hong Kong:		
Long leases	17,291	–
Medium-term leases	192,111	169,045
	223,970	184,011

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	2% to 5%
Leasehold improvements	The shorter of lease terms and 5 years
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

The carrying value of the motor vehicles includes an amount of HK\$1,095,000 (2005: HK\$811,000) in respect of assets held under finance leases.

During the year, the directors have reassessed the recoverable amount of the building situated outside Hong Kong and recognised an impairment loss of approximately HK\$1,000,000 (2005: HK\$747,000) with reference to the estimated market price.

16. PREPAID LEASE PAYMENTS

	2006	2005
	HK\$'000	HK\$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	6,024	6,169
Medium-term leasehold land outside Hong Kong	42,624	40,115
Long leases land outside Hong Kong	29,959	–
	78,607	46,284
Analysed for reporting purposes as:		
Non-current asset	76,404	44,957
Current asset	2,203	1,327
	78,607	46,284

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
At 1 January 2005	41,600
Increase in fair value recognised in the income statement	22,400
<hr/>	
At 31 December 2005	64,000
Increase in fair value recognised in the income statement	4,000
<hr/>	
At 31 December 2006	68,000

The fair value of the Group's investment properties at 31 December 2006 have been arrived on the basis of a valuation carried out by Centaline Surveyors Ltd., independent qualified professional valuers not connected with the Group. Centaline Surveyors Ltd. are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties are situated in Hong Kong and are held under medium-term leases.

18. INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademarks HK\$'000	Total HK\$'000
COST			
At 1 January 2005, 31 December 2005, and 1 January 2006	–	6,917	6,917
Acquired on acquisition of business	1,800	10,000	11,800
Exchange realignment	–	(44)	(44)
<hr/>			
At 31 December 2006	1,800	16,873	18,673
ACCUMULATED AMORTISATION			
At 1 January 2005	–	2,248	2,248
Provided for the year	–	692	692
<hr/>			
At 31 December 2005	–	2,940	2,940
Provided for the year	–	1,187	1,187
Exchange realignment	–	(19)	(19)
<hr/>			
At 31 December 2006	–	4,108	4,108
CARRYING VALUES			
At 31 December 2006	1,800	12,765	14,565
<hr/>			
At 31 December 2005	–	3,977	3,977

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

18. INTANGIBLE ASSETS *(Cont'd)*

Notes:

- (a) The trademarks are amortised over 10 years.
- (b) For impairment assessment of goodwill, goodwill is allocated to the Group's cash generating unit (CGU) for retailing business.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates which do not exceed the long-term average growth rate in which the CGU operates.

Key assumptions used in value-in-use calculations include:

- (i) gross margin ranging from 50% to 70% per annum;
- (ii) growth rate used to extrapolate cash flow projections beyond the period covered by budgets ranging from 0% to 2% per annum; and
- (iii) discount rate of 12% per annum.

These assumptions have been used for the analysis of each CGU within the business segment.

The management determined budgeted gross margin based on past performance and the expectations for the market development.

19. INTERESTS IN ASSOCIATES

	2006 HK\$'000	2005 HK\$'000
Cost of investment in associates, unlisted	2,000	2,000
Share of post acquisition losses	(2,000)	(2,000)
	-	-

The amount due to an associate is unsecured, interest-free and is repayable on demand. The directors consider the carrying amount approximate to its fair value.

Details of the Group's associate at 31 December 2006 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 activities
Sherman-Theme (China) Limited	Incorporated	Hong Kong	37.5	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES *(Cont'd)*

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

	2006 HK\$'000	2005 HK\$'000
Total assets	-	-
Total liabilities	(1,572)	(1,569)
Net liabilities	(1,572)	(1,569)
Group's share of net assets of associates	-	-
Revenue	-	-
Loss for the year	(3)	(3)
Group's share of results 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:

	2006 HK\$'000	2005 HK\$'000
Unrecognised share of losses of associates for the year	1	1
Accumulated unrecognised share of losses of associates	1,405	1,404

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK\$'000	2005 HK\$'000
Cost of unlisted investments in jointly controlled entity	9,467	9,467
Share of post-acquisition profits	6,404	5,228
Share of exchange reserve	588	-
	16,459	14,695

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Cont'd)*

The amounts due to jointly controlled entities aged within 90 days. The amounts due to jointly controlled entities are unsecured, interest-free and are repayable on demand. The directors consider the carrying amounts approximate to their fair values.

At 31 December 2006, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
			%	%	%	
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	51	50	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion")	Incorporated	PRC	51	60 <i>(Note)</i>	51	Garment manufacturing

Note: The Group holds 51% of the registered capital of Suzhou High Fashion. However, under the terms of memorandum and articles of association of Suzhou High Fashion, all significant events must require unanimous consent by the Group and the other significant shareholder. Therefore, Suzhou High Fashion is classified as a jointly controlled entity of the Group.

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2006 HK\$'000	2005 HK\$'000
Current assets	31,184	29,126
Non-current assets	20,530	20,966
Current liabilities	19,441	21,278
Group's share of net assets of jointly controlled entities	16,459	14,695
Income	84,878	65,617
Expenses	82,572	63,356
Group's share of results of jointly controlled entities for the year	1,176	1,153

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2006 HK\$'000	2005 HK\$'000
Unlisted securities:		
– equity securities	1,000	1,000
Less: Impairment loss recognised	(325)	(325)
	675	675

The above unlisted investments represent investments in unlisted equity securities issued by a private entity incorporated in the British Virgin Islands (“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.

22. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Raw materials	155,780	101,602
Work in progress	127,351	128,654
Finished goods	123,279	102,795
	406,410	333,051

23. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from 30 days to 90 days.

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

	2006 HK\$'000	2005 HK\$'000
Within 90 days	295,824	248,232
91 to 180 days	31,394	14,014
181 to 360 days	1,945	4,824
Over 360 days	1,384	5,681
	330,547	272,751

The directors consider that the carrying amounts of trade receivables approximate to their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

24. OTHER CURRENT FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All bills receivable and bills payable are aged within 90 days.

Bank deposits are short term highly liquid investments carrying interest ranging from 1.75% to 5.12% per annum which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Included in other payables is an amount of approximately HK\$44 million which represents government grants provided to the Group for relocation of manufacturing plant in the PRC. The relocation is expected to be completed in year 2007 and the amount will be offset against removal expense and credited to consolidated income statement upon completion of the relocation.

The directors consider that the carrying amounts of the other current financial assets and other current financial liabilities approximate their fair values.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2006	2005
	HK\$'000	HK\$'000
Cash flow hedges – Foreign currency forward contracts	6,513	4,000

The aggregate notional amount of the outstanding forward contracts at 31 December 2006 was HK\$865 million (2005: HK\$465 million) for Renminbi ("RMB") at exchange rates ranging from RMB0.9893 to RMB1.0015 (2005: RMB1.0289 to RMB1.05) against HK\$1 and the maturity periods were within one year. They are designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to foreign currency forecast purchases.

As at 31 December 2006, a fair value gain of HK\$6,513,000 (2005: HK\$4,000,000) has been deferred in equity and is expected to be released to the income statement at various dates in the coming year after the balance sheet date, the period in which the inventories are recognised as expenses.

The terms of the foreign exchange contracts have been negotiated to match the terms of the forecast purchases.

The derivatives are measured at fair value at 31 December 2006. The fair values were determined based on the quoted prices provided by financial institutions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

26. TRADE PAYABLES

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

	2006 HK\$'000	2005 HK\$'000
Trade payables:		
Within 90 days	171,589	126,471
91 to 180 days	6,575	4,973
181 to 360 days	6,559	6,807
Over 360 days	13,425	10,331
Accrued purchases	198,148 51,565	148,582 23,675
	249,713	172,257

The Group's trade payables denominated in RMB and incurred by subsidiaries whose functional currencies are other than RMB amounted to approximately HK\$188,900,000 (2005: HK\$138,827,000).

The directors consider the carrying amounts approximate to their fair values.

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amounts payable under finance leases:				
Within one year	439	255	407	222
In the second year	237	305	219	290
<i>Less:</i> Future finance charges	676 (50)	560 (48)	626 -	512 -
Present value of lease obligations	626	512	626	512
<i>Less:</i> Amount due for settlement within 12 months (shown under current liabilities)			(406)	(222)
Amount due for settlement after 12 months (shown under non-current liabilities)			220	290

The Group leases certain of its motor vehicles. The range of the lease term is from one to three years. For the year ended 31 December 2006, the average effective borrowing rate was 8% (2005: 8%). Interest rates are fixed at the contract date.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

28. BANK BORROWINGS

	2006 HK\$'000	2005 HK\$'000
Trust receipt loans	1,931	1,750
Bank loans	458,383	365,580
	460,314	367,330
Analysed as:		
Secured	40,348	36,528
Unsecured	419,966	330,802
	460,314	367,330
The maturity profile of the above borrowings is as follows:		
On demand or within one year	400,814	304,330
More than one year, but not exceeding two years	23,000	60,000
More than two years, but not exceeding five years	36,500	3,000
	460,314	367,330
<i>Less:</i> Amounts due within one year shown under current liabilities	(400,814)	(304,330)
Amounts due after one year shown under non-current liabilities	59,500	63,000

All the Group's borrowings and bank overdrafts are variable rate borrowings which carry interest at 4.80% to 8.25% (2005: 3.56% to 7.75%) per annum.

The Group's borrowings that are denominated in United States Dollars other than the functional currencies of the group entities amounting to approximately HK\$62,149,000 (2005: HK\$114,055,000).

At 31 December 2006, certain bank loans were secured by bank deposits of nil (2005: HK\$159,000), bills receivable of HK\$11,774,000 (2005: HK\$17,055,000) and trade receivables of HK\$88,643,000 (2005: HK\$98,185,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movements thereon during the current and prior reporting year:

	Deferred tax assets					Deferred tax liabilities					Total
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance on obsolete inventories	Unrealised exchange losses	Tax losses	Accelerated tax	Revaluation of investment properties	Trademarks	Retirement benefits scheme contributions		
	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	(881)	-	-	-	-	(881)	2,012	812	-	-	2,824
Charge (credit) to income statement for the year	188	(91)	(870)	(938)	-	(1,711)	(730)	3,920	-	-	3,190
Exchange realignment	-	3	25	27	-	55	-	-	-	-	-
At 31 December 2005 and 1 January 2006	(693)	(88)	(845)	(911)	-	(2,537)	1,282	4,732	-	-	6,014
Charge (credit) to income statement for the year	71	-	165	220	(1,800)	(1,344)	-	700	-	46	746
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	1,800	-	1,800
Exchange realignment	-	(1)	(79)	53	-	(27)	-	-	-	-	-
At 31 December 2006	(622)	(89)	(759)	(638)	(1,800)	(3,908)	1,282	5,432	1,800	46	8,560

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

The Group has estimated tax losses arising in Hong Kong of HK\$819,463,000 (2005: HK\$825,138,000) and tax losses arising in overseas of HK\$209,109,000 (2005: HK\$226,130,000) for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

30. PROVISION FOR LONG SERVICE PAYMENTS

	HK\$'000
At 1 January 2005	2,594
Amount utilised during the year	(570)
<hr/>	
At 31 December 2005	2,024
Amount utilised during the year	(709)
<hr/>	
At 31 December 2006	1,315

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision represents management's best estimate of the probable future payments which have been earned by the employees from their service to the Group up to the balance sheet date.

31. SHARE CAPITAL

	Number of shares	Amount
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	1,000,000	100,000
<hr/>		
<i>Issued and fully paid:</i>		
At 1 January 2005	329,352	32,935
Exercise of share options	3,800	380
<hr/>		
At 31 December 2005 and 1 January 2006	333,152	33,315
Exercise of share options (Note (ii))	1,120	112
Share repurchased and cancelled (Note (ii))	(110)	(11)
<hr/>		
At 31 December 2006	334,162	33,416

All the issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

31. SHARE CAPITAL (Cont'd)

Notes:

- (i) During the year, the subscription rights attaching to 1,120,000 share options were exercised at the subscription price of HK\$0.505 per share, resulting in the issue of 1,120,000 shares of HK\$0.10 each for a total cash consideration of approximately HK\$566,000.
- (ii) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
November 2006	72,000	1.45	1.45	104
December 2006	38,000	1.45	1.45	55

The above shares were cancelled upon repurchase. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's listed shares during the year.

32. SHARE OPTION SCHEMES

(A) Share option schemes of the Company

On 26 March 2002, the share option scheme adopted by the Company on 18 March 1994 (the "Old Scheme") was terminated and a new scheme (the "New Scheme") was adopted by the shareholders of the Company. As a result, the Company can no longer grant any further options under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. The purpose of the New Scheme is to enable the Company to grant options to eligible participants, thereby (a) providing alternative recognition of their contributions; (b) strengthening the relationship between the Group and its employees and executives; (c) attracting and retaining key employees and executives; and (d) motivating employees and executives. Eligible participants of the New Scheme include the directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for 10 years from date of adoption.

Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. 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 exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(Cont'd)*

(A) Share option schemes of the Company *(Cont'd)*

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

At 31 December 2006, the Company had 1,020,000 share options outstanding, which represented approximately 0.3% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,020,000 additional ordinary shares of the Company for a cash consideration of approximately HK\$515,000 (before issue expenses).

The following share options were outstanding during the year:

Name or category of participant	Date of grant	Exercise price HK\$	Number of share options						
			At 31 December 2005			At 31 December 2006			
			At 1 January 2005	Exercised during the year	Cancelled during the year	At 1 January 2006	Exercised during the year	At 31 December 2006	
Directors									
Lam Foo Wah	5 May 1999	0.505	3,800,000	(3,800,000)	-	-	-	-	-
Ip Weng Kun	5 May 1999	0.505	1,500,000	-	(1,500,000)	-	-	-	-
So Siu Hang, Patricia	5 May 1999	0.505	720,000	-	-	720,000	-	-	720,000
Wong Shing Loong, Raymond	5 May 1999	0.505	1,000,000	-	-	1,000,000	(1,000,000)	-	-
Other employees	5 May 1999	0.505	420,000	-	-	420,000	(120,000)	-	300,000
			7,440,000	(3,800,000)	(1,500,000)	2,140,000	(1,120,000)	-	1,020,000

Notes:

- (1) 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.
- (2) Ip Weng Kun resigned as director on 30 December 2005.
- (3) The weighted average closing price of the Company's share immediately before the dates of which the options were exercised was HK\$1.58 (2005: HK\$1.58).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

32. SHARE OPTION SCHEMES *(Cont'd)*

(B) Share option scheme of Theme International Holdings Limited ("Theme")

Theme operates a share option scheme (the "Theme Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Theme and its subsidiaries operations. Eligible participants of the Theme Share Option Scheme include any employee or executive or any non-executive directors of the Theme and its subsidiaries, 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 Theme and its subsidiaries. The Theme Share Option 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 Theme Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of Theme in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Theme Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Theme in issue at any time. Any further grant of share options in excess of this limit is subject to the approval of Theme's shareholders in a general meeting.

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

The offer of a grant of share options of Theme 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 Theme Share Option Scheme period.

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

No share options were granted under Theme Share Option Scheme during the year nor outstanding as at the balance sheet date.

33. NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$464,000 (2005: nil).

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34. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged the following assets to secure credit facilities or manufacturing contract granted to the Group.

	2006 HK\$'000	2005 HK\$'000
Trade receivables	90,581	98,185
Bills receivable	11,774	17,055
Bank deposits <i>(Note)</i>	100	159
	102,455	115,399

Note: At the balance sheet date, the Group has also pledged bank deposit amounted to RMB100,000 (equivalent to approximately HK\$100,000) to fulfill the requirement of Beijing Olympic Organizing Committee for producing and selling 2008 Beijing Olympic products.

35. OPERATING LEASES

(a) The Group as lessor

The Group leases its investment properties and subleases certain of its rented shops under operating lease arrangements with average lease term of one to two years.

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

	2006 HK\$'000	2005 HK\$'000
Within one year	10,953	9,552
In the second to fifth years, inclusive	7,237	7,264
Over 5 years	2,246	–
	20,436	16,816

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For the year ended 31 December 2006

35. OPERATING LEASES *(Cont'd)*

(b) The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Land and buildings:		
Within one year	38,699	37,980
In the second to fifth years, inclusive	44,357	59,905
Over five years	8,024	12,605
	91,080	110,490
Equipment:		
Within one year	24	148
In the second to fifth years, inclusive	82	392
	106	540
	91,186	111,030

Operating lease payments represent rental payable by the Group for certain of its office premises, rental shops, factories and office equipment. Leases are negotiated for terms ranging from one to ten years.

36. CAPITAL COMMITMENT

	2006 HK\$'000	2005 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	41,662	1,247
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	-	94

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37. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	2006	2005
	HK\$'000	HK\$'000
Purchases of raw materials and finished goods from jointly controlled entities	51,659	47,611
Sales of raw materials and finished goods to jointly controlled entities	2,323	89
Processing fee charge from jointly controlled entity	274	–
Professional fees paid to Wilkinson & Grist (<i>Note</i>)	445	366

Note: Mr. Chan Wah Tip, Michael, director of the Company, is a partner of Wilkinson & Grist.

Compensation of key management personnel

The remuneration of directors and key executive during the year are set out in notes 9 and 10, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

38. ACQUISITIONS OF BUSINESS / ASSETS

(i) Acquisition of business

Pursuant to the acquisition agreement dated 30 March 2006, the Group acquired the trademarks and part of the property, plant and equipment, current assets and current liabilities (the "Business") of Shenzhen CSLR Industrial Company Limited 深圳城市儷人實業有限公司, an enterprise engaged in garment retailing and uniform manufacturing in the PRC from an independent third party. The acquisition of the Business was completed on 30 June 2006.

The net assets acquired in the transaction are as follows:

	Carrying amount before combination	Fair value adjustments	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Property, plant and equipment	260	–	260
Trademarks	–	10,000	10,000
Inventories	6,682	–	6,682
Deposits, prepayments and other receivables	1,890	–	1,890
Other payables and accrued charges	(2,878)	–	(2,878)
Deferred tax liability	–	(1,800)	(1,800)
	5,954	8,200	14,154
Goodwill			1,800
			15,954
Total consideration satisfied by cash and cash outflow arising on acquisition:			
Cash consideration paid			15,954

Notes to the Consolidated Financial Statements

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38. ACQUISITIONS OF BUSINESS / ASSETS *(Cont'd)*

(i) Acquisition of business *(Cont'd)*

The Business contributed HK\$3.7 million to the Group's profit for the period between the date of acquisition and 31 December 2006.

The disclosure of revenue and profit or loss of the Group as if the acquisition of the Business had been completed on 1 January 2006 is impracticable as no financial statements have been prepared for the Business for the period from 1 January 2006 to 31 December 2006.

(ii) Acquisition of assets

On 1 January 2006, the Group acquired 73% of the issued share capital of 杭州西湖春雷絲綢有限公司 for a consideration of approximately RMB14,257,000 (equivalent to approximately HK\$14,041,000). The assets acquired mainly comprised of prepaid lease and property, plant and equipment amounting to HK\$1,810,000 and HK\$18,816,000 respectively. Other assets and liabilities acquired were insignificant.

39. POST BALANCE SHEET EVENT

On 26 March 2007, an indirect wholly-owned subsidiary of the Company entered into a joint venture agreement with an independent third party for the establishment of a joint venture company in Hong Kong in respect of retail business in the PRC. The investment cost of the joint venture amounted to HK\$4,000,000.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 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 capital/ registered capital held by the Group %	Principal activities
Angel Star Investment Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting deferred	75 75	Holding of trademarks
August Silk Inc.	USA	US\$10	100	Marketing and garment trading
Anway Garment Limited	Hong Kong	HK\$2	100	Garment trading
Bramead International Inc.	British Virgin Islands/USA	US\$1	100	Holding of trademarks

Notes to the Consolidated Financial Statements

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Cont'd)*

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
Cantabian Limited	Hong Kong	HK\$2 Ordinary HK\$2 Non-voting deferred	100 100	Investment holding
Dongguan Daliesheng Fashion Co., Ltd. <i>(Note 1)</i>	PRC	HK\$28,000,000	100	Garment manufacturing
Dongguan Sanyue Fashions Limited <i>(Note 2)</i>	PRC	HK\$10,000,000	69	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK\$2	100	Garment trading
Guangdong Theme-Huayu Fashion Company Limited <i>(Note 1)</i>	PRC	RMB5,000,000	75	Garment retailing
Hangzhou High Fashion Knitwear Co., Ltd. <i>(Note 1)</i>	PRC	RMB3,000,000	100	Garment manufacturing
High Fashion Garments, Inc.	USA	US\$5,000	100	Marketing and garment trading
High Fashion Apparel Limited	British Virgin Islands / Hong Kong	US\$1,000	100	Investment holding
High Fashion (China) Co., Ltd. <i>(Note 1)</i>	PRC	US\$14,600,000	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion (BVI) Limited	British Virgin Islands/PRC	US\$1	100	Product sourcing and development
High Fashion (FG) Limited	British Virgin Islands/PRC	US\$1	100	Garment manufacturing
High Fashion (HZ) Limited	British Virgin Islands/PRC	US\$1	100	Garment manufacturing

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

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
High Fashion Garments Company Limited	Hong Kong	HK\$2 ordinary HK\$10,000,000 Non-voting deferred	100 100	Garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macao	MOP100,000	100	Garment trading and agency
High Fashion Garments Management Limited	Hong Kong	HK\$20 Ordinary HK\$20 Non-voting deferred	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US\$1,800	100	Investment holding
High Fashion Knit Company Limited	Hong Kong	HK\$2	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK\$2 Ordinary HK\$10,000 Non-voting deferred	100 100	Garment trading
High Fashion Silk (Zhejiang) Co., Ltd. (Note 1)	PRC	US\$20,000,000	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	GBP20,000	70.5	Garment trading
Navigation Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Stage II Limited	Hong Kong	HK\$800,000	75	Garment retailing
Taiwan Vision Company Limited	Taiwan	NT\$80,000,000	75	Garment retailing
Theme Corporate Fashion ((Asia) Limited	Hong Kong	HK\$1	75	Garment trading
Theme Corporate Fashion ((Europe) Limited	Hong Kong	HK\$1	75	Garment trading
Theme Corporate Fashion ((Overseas) Limited	Hong Kong	HK\$1	75	Garment trading
Theme (Dongguan) Limited	British Virgin Islands/PRC	US\$1	75	Garment trading

Notes to the Consolidated Financial Statements

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40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

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 Garments (Shenzhen) (Company Limited (Note 1))	PRC	RMB10,000,000	75	Garment retailing and trading
Theme Fashion (Singapore) (Pte. Ltd.)	Singapore	S\$100,000	75	Garment retailing
Theme Industry Hangzhou (Company Limited (Note 1))	PRC	US\$2,000,000	75	Garment retailing and trading
The King Garment Limited	Hong Kong	HK\$2	100	Garment trading
Theme	Bermuda/Hong Kong	HK\$50,166,588	75	Investment holding
Theme International Limited	Hong Kong	HK\$2 Ordinary HK\$1,000,000 Non-voting deferred	75 75	Garment trading
Winsmart Overseas Limited	Hong Kong	HK\$2	100	Garment trading

Notes:

(1) These companies are registered as a wholly owned foreign enterprise.

(2) These companies are registered as a sino-foreign equity joint venture.

High Fashion Apparel Limited is the directly held wholly owned subsidiary of the Company. Except High Fashion Apparel Limited, all subsidiaries listed above are indirectly held by the Company.

The shares of Theme are listed on the Stock Exchange. The market value of Theme's shares held by the Group amounted to HK\$101,587,000, as at 31 December 2006 (2005: HK\$97,824,000).

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.

Except for Theme which issued a convertible note to the Company, none of the subsidiaries had issued any debt securities at 31 December 2006.