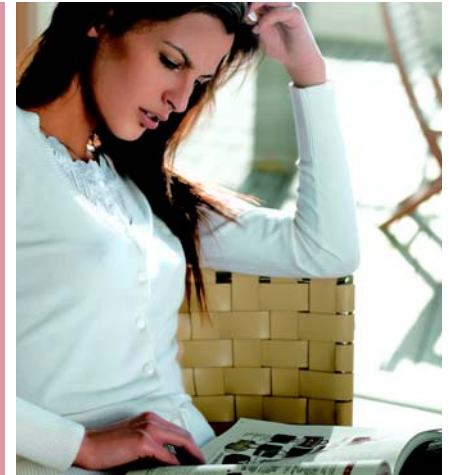
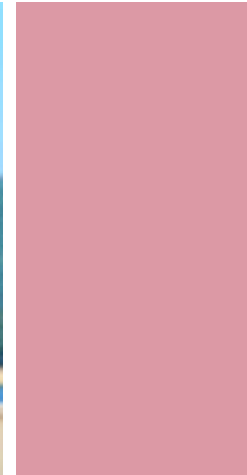


Management Discussion and Analysis

Revenue for the year of 2006 was HK\$287 million, representing an overall increase of 11% when compared to HK\$259 million for 2005.

Loss from operating activities before interest slightly decreased from HK\$0.8 million to HK\$0.6 million. While loss attributable to shareholders was HK\$6.6 million for the year, because of increase in interest expenses, compared to a loss attributable to shareholders of HK4.0 million for the last year.



Management Discussion and Analysis

Review of Operation

In the People's Republic of China ("PRC"), revenue increased by 55%. The Group acquired "CSLR" brand during the financial year and was consolidated into the current position effective 1 July 2006. Theme's own brand revenue increased by 13% compared to last year.

Taiwan incurred a loss of HK\$7.4 million which was caused by unstable social environment. Goods were sold at a much deeper discount rate causing a drop in gross profit in Taiwan.

The profit/loss analysis by region is as follows:

	Revenue		Contribution	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Retail, Wholesales & Manufacturing of fashion				
PRC	126,495	81,422	10,988	(190)
Taiwan	124,382	127,758	(7,390)	4,560
Hong Kong	16,139	18,138	(1,902)	(2,634)
South East Asia	11,121	10,388	492	1,125
	278,137	237,706	2,188	2,861
Others	8,970	20,834	(2,786)	(3,645)
Total	287,107	258,540	(598)	(784)

Management Discussion and Analysis

Selling and distribution expenses increased by 17% partly due to the increase in retail sales revenue by 13% (HK\$261,398,000 in 2006; HK\$230,791,000 in 2005) and the increase in rental expenses.

The increase in administrative expenses of 20% was mainly caused by the inclusion of CSLR, expenses in relation to promotion and training, and running expenses increased by the capacity upgrade of our Dongguang factory.

Liquidity and Financial Resources

At 31 December 2006, the aggregate loan amount due to immediate holding company, Navigation Limited was HK\$49 million.

As of the balance sheet date, a total of HK\$61.8 million bank loan was raised, out of which HK\$59.5 million loan was guaranteed by the subsidiaries of High Fashion International Limited, the Company's ultimate holding company.

The Group's receivables were mainly denominated in Hong Kong dollars, Renminbi and New Taiwan dollars. The entire bank borrowings was either denominated in Renminbi or Hong Kong Dollar. The Group considers that its foreign exchange risk is not material.

Interest expenses increased by 65% due to two specific project loans raised for the purchase of CSLR and office premises in Shenzhen which will be used as the headquarter and the increases in interest rates in both Hong Kong and PRC.

As at 31 December 2006, the current ratio was 1.68. Based on the current cash position and available banking facilities, the Group should have sufficient liquidity to meet its operational needs.

Management Discussion and Analysis



Human Resources

As of 31 December 2006, the total number of employees of the Group including factory workers was about 2,000. Other than the competitive remuneration package offered to the employees, share options may also be granted to the selected employees based on the Group's performance. The Group has no options granted during the year.

General

The Group had no material contingent liabilities as of the balance sheet date. The major capital expenditure of the year was the acquisition of office premises at HK\$46 million. Except for the above, there was no material capital expenditure during the year. The management of Theme is implementing cost control in relation to selling expenses and also a continuous franchisee expansion program in order to improve the current performance.