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 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is High Fashion International Limited ("High Fashion"), a company incorporated in Bermuda and its shares are listed on the Stock Exchange. Its immediate holding company is Navigation Limited ("Navigation"), a wholly-owned subsidiary of High Fashion and is incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are the manufacturing, retailing and trading of garments. The Company and its subsidiaries are referred to as "the Group".

2. Application of Hong Kong Financial Reporting Standards ("HKFRSs")

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 years 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]

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

2. Application of Hong Kong Financial Reporting Standards ("HKFRSs") – continued

[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.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, 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 benefits 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Basis of consolidation – continued

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 and business are 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 that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations", which are recognised and measured at fair value less costs to sell.

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.

Investments 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 profit or loss and changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Investments in associates – continued

Any excess of the Group's share of the 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.

Revenue recognition

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

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

Subcontracting fee income is recognised when services are provided.

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

Property, plant and equipment

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the 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

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.

Prepaid lease payments of land under operating lease are charged to the consolidated income statement on a straight-line basis over the lease terms.

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 the respective 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Foreign currencies – continued

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

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.

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Taxation – continued

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

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

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business, at the date of acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Other intangible assets

Other intangible assets consist of trademarks that are recognised at fair value upon acquisition as part of a business combination. Subsequent to initial recognition they are carried at cost less accumulated amortisation. Amortisation is calculated to write off the cost less accumulated impairment losses on a straight-line basis over the expected useful life of 10 years. Other intangible assets are reviewed for impairment whenever there is impairment indicator.

Inventories

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Impairment

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

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted 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, receivables (including trade receivables, deposits and other receivables, amounts due from fellow subsidiaries 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Financial instruments – continued

Financial assets – continued

Available-for-sale financial assets

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

Financial liabilities and equity

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

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

Financial liabilities

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

Convertible notes

A convertible note that will be settled only by the Company exchanging a fixed number of its own shares for a fixed amount of cash is an equity instrument.

Equity instruments

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

3. Significant Accounting Policies – continued

Financial instruments – continued

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 receivable 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 expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Key Sources of Estimation Uncertainty

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

Allowance for inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. Financial Instruments

5a. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, bank balances, trade payables, other payables, amount due to immediate holding company 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 sales and purchases, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing bank balances, bank borrowings and loan from immediate holding company which carry interest at variable rates. It is the Group's policy to keep its bank balances and borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The interest rate and terms of repayment of bank borrowings and loan from immediate holding company are disclosed in notes 23 and 32 respectively.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which causes a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. Financial Instruments – continued

5a. Financial risk management objectives and policies – continued

Credit risk – continued

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.

Liquidity risk

The Group has recurring operating losses and there was a net operating cash outflow for the year ended 31 December 2006. In order to ensure sufficient working capital, the management obtained banking facilities at the balance sheet date (see note 23). In this regard, the directors of the Company consider that the Group's liquidity risk is significantly reduced and are satisfied that the Group will be able to meet in full its finance obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

5b. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. Revenue

Revenue, which is also turnover of the Group, represents the amounts received and receivable for goods sold by the Group to outsider customers, less return and allowances and subcontracting fee income for the year, and is analysed as follows:

	2006	2005
	HK$'000	HK$'000
Sales of goods	**270,368**	251,625
Subcontracting fee income	**16,739**	6,915
	287,107	258,540

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. Segment Information

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

Geographical segments

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

Consolidated income statement

	Hong Kong and Macau		People's Republic of China ("PRC")		Taiwan		Singapore		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue												
External sales	**26,961**	36,074	**128,768**	88,479	**124,382**	127,758	**6,996**	6,229	**–**	–	**287,107**	258,540
Inter-segment sales	**42,504**	46,237	**84,283**	97,239	**–**	–	**–**	–	**(126,787)**	(143,476)	**–**	–
	69,465	82,311	**213,051**	185,718	**124,382**	127,758	**6,996**	6,229	**(126,787)**	(143,476)	**287,107**	258,540
Segment results	**(3,878)**	(4,763)	**10,285**	(585)	**(6,991)**	4,533	**(152)**	(183)			**(736)**	(998)
Interest income											**138**	214
Finance costs											**(6,100)**	(3,688)
Loss before taxation											**(6,698)**	(4,472)
Taxation credit											**117**	441
Loss for the year											**(6,581)**	(4,031)

Inter-segment sales are charged at prevailing market rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. Segment Information – continued

Geographical segments – continued

Consolidated balance sheet

	Hong Kong and Macau		PRC		Taiwan		Singapore		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS										
Segment assets	**17,133**	19,194	**160,785**	72,893	**52,804**	53,597	**2,929**	2,682	**233,651**	148,366
Unallocated corporate assets									**2,115**	675
Total assets									**235,766**	149,041
LIABILITIES										
Segment liabilities	**12,624**	11,590	**42,398**	20,091	**12,042**	9,956	**177**	183	**67,241**	41,820
Unallocated corporate liabilities									**116,877**	53,866
Total liabilities									**184,118**	95,686

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. Segment Information – continued

Geographical segments – continued

Other information

	Hong Kong and Macau		PRC		Taiwan		Singapore		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Amortisation of prepaid lease payments	**–**	–	**112**	–	**–**	–	**–**	–	**112**	–
Amortisation of intangible assets	**–**	–	**500**	–	**–**	–	**–**	–	**500**	–
Additions to property, plant and equipment	**3,179**	1,399	**24,150**	8,036	**5,890**	5,568	**134**	253	**33,353**	15,256
Depreciation of property, plant and equipment	**1,496**	1,219	**5,276**	4,777	**5,542**	4,446	**163**	135	**12,477**	10,577
Loss (gain) on disposal of property, plant and equipment	**–**	27	**(69)**	(1,469)	**359**	380	**–**	7	**290**	(1,055)
Allowance for (write back) obsolete inventories	**68**	112	**2,744**	(2,012)	**(1,511)**	1,031	**(52)**	(25)	**1,249**	(894)
(Write back) allowance for bad and doubtful debts	**(152)**	413	**–**	–	**–**	–	**–**	–	**(152)**	413

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

7. Segment Information – continued

Business segments

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

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

	Revenue by business segments	
	2006	2005
	HK$'000	HK$'000
Fashion	**278,137**	237,706
Uniform	**8,970**	20,834
	287,107	258,540

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fashion	**230,643**	144,397	**33,353**	15,238
Uniform	**3,008**	3,969	**–**	18
	233,651	148,366	**33,353**	15,256

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

8. Finance Costs

	2006 **HK$'000**	2005 HK$'000
Bank charges	**317**	153
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	**1,911**	130
Amount due to immediate holding company	**3,872**	3,405
	6,100	3,688

9. Taxation Credit

	2006 **HK$'000**	2005 HK$'000
The (charge) credit comprises:		
Current tax charge		
PRC and other jurisdictions	**(986)**	(1,458)
Underprovision in prior years		
Other jurisdictions	**(266)**	–
Deferred taxation (note 25)	**1,369**	1,899
	117	441

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for both years.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. Taxation Credit – continued

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

	2006 **HK$'000**	2005 HK$'000
Loss before taxation	**6,698**	4,472
Tax at the applicable tax rate of 25% (2005: 25%)	**1,675**	1,118
Tax effect of expenses not deductible for tax purpose	**(747)**	(1,218)
Utilisation of estimated tax losses previously not recognised	**1,223**	2,861
Tax effect of estimated tax losses not recognised	**(1,742)**	(1,345)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,357)**	(1,344)
Effect of tax exemptions granted to PRC subsidiaries	**799**	369
Underprovision in prior years	**266**	–
Taxation credit for the year	**117**	441

During the year, the taxation provision is mainly arising from the subsidiary operating in Taiwan with the prevailing tax rate of 25% (2005: 25%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

10. Loss for the Year

	2006 HK$'000	2005 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Allowance for (write back) obsolete inventories (included in cost of sales)	**1,249**	(894)
Cost of inventories recognised as expenses	**71,490**	69,748
(Write back) allowance for bad and doubtful debts	**(152)**	413
Depreciation of property, plant and equipment	**12,477**	10,577
Amortisation of intangible assets	**500**	–
Amortisation of prepaid lease payments	**112**	–
Auditors' remuneration	**967**	886
Operating lease rentals in respect of rented premises	**41,022**	29,744
Contingent rents	**33,796**	24,486
Loss (gain) on disposal of property, plant and equipment	**290**	(1,055)
Net foreign exchange loss (gain)	**1,608**	(1,547)
Directors' remuneration (note 11)	**2,972**	2,819
Other staff costs		
Salaries and allowances	**67,369**	60,521
Retirement benefits scheme contributions	**4,005**	2,695
	71,374	63,216
Interest income	**(138)**	(214)
Commission income	**(6,626)**	–
Sub-letting rental income (included in selling and distribution expenses)	**(4,006)**	(3,339)

The allowance for obsolete inventories was reversed because the relevant inventory was sold.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. Directors' Remuneration

The emoluments paid or payable to each of the 6 (2005: 6) directors were as follows:

For the year ended 31 December 2006

	Lam Foo Wah HK$'000	Hui Yip Wing HK$'000	Wong Shing Loong, Raymond HK$'000	Mak Kam Sing HK$'000	Yeung Kwok Wing HK$'000	Wong Shiu Hoi, Peter HK$'000	Total 2006 HK$'000
Fees	–	–	–	120	120	120	360
Other emoluments							
Salaries and other benefits	–	2,600	–	–	–	–	2,600
Contributions to retirement benefits schemes	–	12	–	–	–	–	12
Total emoluments	–	2,612	–	120	120	120	2,972

For the year ended 31 December 2005

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. Directors' Remuneration – continued

Mr. Lam Foo Wah and Mr. Wong Shing Loong, Raymond did not receive remuneration from the Group as they are also the directors of High Fashion. Their remuneration has been paid by High Fashion.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

12. Employees' Emoluments

Of the five highest paid individuals in the Group, one (2005: one) was director of the Company whose emoluments are included in the disclosures in note 11. The emoluments of the remaining four (2005: four) highest paid individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	**3,390**	2,938
Retirement benefits scheme contributions	**21**	30
	3,411	2,968

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
Nil to HK$1,000,000	**3**	4
HK$1,000,001 to HK$1,500,000	**1**	–
	4	4

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

13. Loss Per Share

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

	2006	2005
	HK$'000	HK$'000
Loss for the purpose of basic and diluted loss per share attributable to equity holders of the Company	**(6,581)**	(4,031)
	Number	Number
Weighted average number of ordinary shares for the purpose of basic loss per share including ordinary shares that will be issued upon the conversion of a mandatory convertible notes from the beginning of the date the contract was entered into	**5,976,366,398**	5,976,366,398

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14. Property, Plant and Equipment

	Buildings HK$'000	Plant and equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2005	5,278	9,740	42,820	1,249	59,087
Additions	–	571	13,747	938	15,256
Disposals	(5,278)	(2,163)	(8,031)	(214)	(15,686)
Exchange realignment	–	185	(341)	24	(132)
At 31 December 2005	–	8,333	48,195	1,997	58,525
Additions	17,378	446	15,024	505	33,353
Acquired on acquisition of business	–	9	201	50	260
Disposals	–	–	(6,310)	(311)	(6,621)
Exchange realignment	–	1	820	48	869
At 31 December 2006	17,378	8,789	57,930	2,289	86,386
DEPRECIATION					
At 1 January 2005	2,107	6,795	29,100	807	38,809
Provided for the year	–	601	9,762	214	10,577
Eliminated on disposals	(2,107)	(1,096)	(7,002)	(170)	(10,375)
Exchange realignment	–	123	(269)	20	(126)
At 31 December 2005	–	6,423	31,591	871	38,885
Provided for the year	85	546	11,527	319	12,477
Eliminated on disposals	–	–	(5,920)	(162)	(6,082)
Exchange realignment	2	1	616	19	638
At 31 December 2006	87	6,970	37,814	1,047	45,918
CARRYING VALUES					
At 31 December 2006	17,291	1,819	20,116	1,242	40,468
At 31 December 2005	–	1,910	16,604	1,126	19,640

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14. Property, Plant and Equipment – continued

At 31 December 2006, the Group's buildings included above are located in the PRC and are held under long lease.

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

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

15. Intangible Assets

	Goodwill HK$'000	**Trademarks** HK$'000	**Total** HK$'000
COST			
At 1 January 2005 and 31 December 2005	–	–	–
Acquired on acquisition of business	1,800	10,000	11,800
At 31 December 2006	1,800	10,000	11,800
AMORTISATION			
At 1 January 2005 and 31 December 2005	–	–	–
Provided for the year	–	500	500
At 31 December 2006	–	500	500
CARRYING VALUES			
At 31 December 2006	1,800	9,500	11,300
At 31 December 2005	–	–	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15. Intangible Assets – continued

Notes:

(a) The trademarks were amortised over 10 years

(b) For impairment assessment of goodwill, goodwill is allocated to the Group's cash generating units (CGUs).

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 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

16. Prepaid Lease Payments

The Group's prepaid lease payments represent the leasehold land located in the PRC under long lease.

The leasehold land is amortised on a straight-line basis over the lease terms.

The amounts are analysed for reporting purposes as:

	2006	2005
	HK$'000	HK$'000
Current asset (included in deposits, prepayments and other receivables)	**459**	–
Non-current asset	**29,500**	–
	29,959	–

17. Investments in Associates

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

17. Investments in Associates – continued

Details of the Group's associates 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 activity
Sherman-Theme (China) Limited	Incorporated	Hong Kong	50	Investment holding
Shenyang Sherman – Theme Fashion Limited	Incorporated	PRC	30	Inactive

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 result of associates for the year	**–**	–

The investments in associates have been fully impaired by the Group in previous years. The Group has discontinued recognition of its share of losses of certain associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

18. Available-for-Sale Investments

	2006 & 2005 HK$'000
Unlisted equity investments, at cost	1,000
Less: Impairment loss recognised	(325)
	675

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

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

19. Inventories

	2006 **HK$'000**	2005 HK$'000
Raw materials	**7,756**	7,894
Work in progress	**3,764**	3,035
Finished goods	**52,680**	38,566
	64,200	49,495

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20. Trade Receivables

The Group allows an average credit period range from 30 days to 90 days to its trade customers.

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

	2006 **HK$'000**	2005 HK$'000
Within 90 days	**27,217**	24,302
91 to 180 days	**630**	2,163
181 to 360 days	**453**	657
	28,300	27,122

21. Bank Balances and Cash

Bank balances and cash comprise cash and short-term bank deposits held by the Group carrying an effective interest at 0.4% (2005: 0.4%) with an original maturity of three months or less.

22. Trade Payables

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

	2006 **HK$'000**	2005 HK$'000
Within 90 days	**14,053**	13,856
91 to 180 days	**947**	4
181 to 360 days	**5,303**	66
Over 360 days	**3,464**	3,228
	23,767	17,154

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

23. Bank Borrowings

	2006 **HK$'000**	2005 HK$'000
Unsecured bank borrowings:		
Bank overdrafts (Note i)	**392**	–
Bank loans (Note ii)	**59,500**	–
Trust receipt loans (Note iii)	**1,931**	1,750
	61,823	1,750
Carrying amount repayable:		
On demand or within one year	**17,323**	1,750
More than one year, but not exceeding two years	**14,000**	–
More than two years but not more than five years	**30,500**	–
	61,823	1,750
Less: Amounts due within one year shown under current liabilities	**(17,323)**	(1,750)
Amount due after one year	**44,500**	–

Notes:

(i) The bank overdrafts denominated in Hong Kong dollars of HK$392,000 are variable rate borrowings which carry an effective interest rate of 4.8% (2005: Nil).

(ii) The bank loans denominated in Renminbi of HK$59,500,000 are variable rate borrowings which carry an effective interest rate of 6.0% to 6.8% (2005: Nil). At the balance sheet date, bank loans of HK$59,500,000 (2005: Nil) was guaranteed by the subsidiaries of High Fashion.

(iii) The trust receipt loans denominated in Hong Kong dollars are variable rate borrowings which carry an effective interest rate of 7.0% (2005: 6.5%).

As at the balance sheet date, the Group has undrawn borrowing facilities with floating rates expiring within one year amounting to approximately HK$14,131,000 (2005: HK$21,450,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

24. Share Capital

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 31 December 2006	50,000,000	500,000
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 31 December 2006	5,016,659	50,167

25. Deferred Taxation

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

	Bad and doubtful debts HK$'000	Allowance on obsolete inventories HK$'000	Unrealised exchange losses HK$'000	Retirement benefits scheme contributions HK$'000	Trademarks HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2005	–	–	–	–	–	–	–
Credit to consolidated income statement for the year	91	870	938	–	–	–	1,899
Exchange realignment	(3)	(25)	(27)	–	–	–	(55)
At 31 December 2005	88	845	911	–	–	–	1,844
(Charge) credit to consolidated income statement for the year	–	(165)	(220)	(46)	–	1,800	1,369
Acquired on acquisition of business	–	–	–	–	(1,800)	–	(1,800)
Exchange realignment	1	79	(53)	–	–	–	27
At 31 December 2006	89	759	638	(46)	(1,800)	1,800	1,440

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

25. Deferred Taxation – continued

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$764,453,000 (2005: HK$762,377,000) available for offset future profits. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

The ultimate realisation of these deferred tax assets depend principally on Taiwan segment achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit and loss projections of these businesses, it is 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 profit and loss account if there is a significant adverse change in the projected performance and resulting projected taxable profits of the business.

26. Convertible Notes

The convertible notes issued to the immediate holding company are unsecured, interest-free and are convertible in whole or in part by the noteholders into shares and were originally due to be mandatorily converted into ordinary shares on 30 August 2005. Such mandatory conversion was automatically postponed until such time as the Company is satisfied that, at least 25% of the shares are held by the public as required under the Rules Governing the Listing of Securities on the Stock Exchange. Up to 31 December 2006, such condition was not satisfied and the mandatory conversion will continue to be postponed.

The outstanding amount of the convertible notes can be converted into ordinary shares of HK$0.01 each in the Company at a conversion price of HK$0.069 (subject to adjustment) per share.

In view of the convertible notes will be settled by the Company delivering a fixed number of its own shares for no future consideration, they are accounted for as an equity instrument.

27. Share Option Scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include any employee or executive or any non-executive directors of the Group, including any full-time or part-time employees or executives, executive directors, non-executive directors, independent non-executive directors and secretary of any member of the Group. The Scheme became effective on 26 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

27. Share Option Scheme – continued

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The share option may be exercised at any time during the Scheme period.

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

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

No share options were granted for both years nor outstanding as at the balance sheet date.

28. Major Non-cash Transaction

During the year ended 31 December 2006, the Group acquired buildings for a consideration of HK$47,449,000 from a third party. Part of the consideration of HK$10,451,000 was not settled at 31 December 2006 and was recorded in other payables in the consolidated balance sheet.

29. Acquisition of Business

Pursuant to the acquisition agreement dated 30 March 2006, the Group acquired the trademarks, the retail network, the relevant business contracts 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 from an independent third party. The acquisition of the Business was completed on 30 June 2006 and has been accounted for using the purchase method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29. Acquisition of Business – continued

The net assets acquired in the transaction are as follows:

	Carrying amount before combination HK$'000	Fair value adjustments HK$'000	Fair value 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			15,954
Cash outflow arising on acquisition:			
Cash consideration paid			(15,954)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

29. Acquisition of Business – continued

The Business contributed HK$3.7 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

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.

30. Operating Lease Commitments

The Group as lessee

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

	2006	2005
	HK$'000	HK$'000
Within one year	**34,350**	28,570
In the second to fifth year inclusive	**26,998**	33,423
	61,348	61,993

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

30. Operating Lease Commitments – continued

The Group as lessor

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

	2006	2005
	HK$'000	HK$'000
Within one year	**4,006**	4,006
In the second to fifth year inclusive	**834**	4,840
	4,840	8,846

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

31. Retirement Benefits Schemes

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

32. Related Party Transactions

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

Balances

	2006	2005
	HK$'000	HK$'000
Amounts due from fellow subsidiaries (Note i)	**3,673**	7,210
Amounts due to fellow subsidiaries (Note i)	**(2,237)**	(444)
Amount due to an associate (Note i)	**(599)**	(602)

	2006	2005
	HK$'000	HK$'000
Amount due to immediate holding company		
Current account with immediate holding company (Note i)	**3,872**	–
Loan repayable with immediate holding company (Note ii)	**49,000**	49,000
	52,872	49,000
Less: Amount due within one year shown under current liabilities	**(3,872)**	(49,000)
Amount due after one year	**49,000**	–

Notes:

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

(ii) The amount is unsecured, interest bearing at 7.75% to 8% (2005: 5% to 7.75%) per annum and is not repayable within one year. At 31 December 2005, the amount was classified as current and was repayable within one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

32. Related Party Transactions – continued

Transactions

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

	2006	2005
	HK$'000	HK$'000
Interest expense charged by immediate holding company	**3,872**	3,405
Rental expense charged by a fellow subsidiary	**420**	420
Subcontracting fee income from fellow subsidiaries	**8,659**	6,915
Transfer of property, plant and equipment to a fellow subsidiary	**(18)**	–

(ii) During the year ended 31 December 2006, a subsidiary of High Fashion entered into a subcontracting contract with a PRC manufacturing company (an independent third party) through a subsidiary of the Company. The commission fee income received by the subsidiary of the Company from the PRC manufacturing company amounted to approximately HK$6,626,000.

(iii) As at the balance sheet date, a bank loan of HK$57,500,000 (2005: Nil) was guaranteed by the subsidiaries of High Fashion.

Details of the key management compensation are disclosed in note 11.

33. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

34. Particulars of Principal Subsidiaries of the Company at 31 December 2006

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
Angel Star Investment Limited	Hong Kong	HK$2 ordinary HK$2 non-voting deferred	100	Trademarks holding
Dong Guan Sanyue Fashions Limited (“Dongguan Sanyue”) (Note i)	PRC	HK$10,000,000	92	Manufacturing of garments
Guangdong Theme-Huayu Fashion Company Limited (“Guangdong Theme-Huayu”)	PRC	RMB5,000,000	100	Retailing of garments
Stage II Limited	Hong Kong	HK$800,000	100	Retailing of garments
Taiwan Vision Company Limited	Taiwan	NTD80,000,000	100	Retailing of garments
Theme Corporate Fashion (Asia) Limited	Hong Kong	HK$1	100	Trading of garments
Theme Corporate Fashion (Europe) Limited	Hong Kong	HK$1	100	Trading of garments
Theme Corporate Fashion (Overseas) Limited	Hong Kong	HK$1	100	Trading of garments
Theme (Donnguan) Limited	BVI	US$1	100	Trading of garments

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

34. Particulars of Principal Subsidiaries of the Company at 31 December 2006 – continued

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Group %	Principal activities
Theme Garments (Shenzhen) Company Limited	PRC	RMB10,000,000	100	Retailing and trading of garments
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	100	Retailing of garments
Theme Industry Hangzhou Company Limited ("Hangzhou Theme") (Note ii)	PRC	US$2,000,000	100	Retailing and trading of garments
Theme International Holdings (B.V.I.) Limited ("Theme BVI")	BVI	US$10,001	100	Investment holding
Theme International Limited	Hong Kong	HK$2 ordinary HK$1,000,000 non-voting deferred	100	Trading of garments

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

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

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

34. Particulars of Principal Subsidiaries of the Company at 31 December 2006 – continued

Notes:

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

During the year ended 31 December 2006, Dongguan Sanyue was under the process of deregistration. The process has not been completed up to the date of the report.

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

35. Investee Companies

The Group acquired a 56% equity interest in Wescorp Limited, the sole asset of which is a 99.6% equity interest in the Emporium Holdings (Singapore) Limited and its subsidiaries (the “Emporium Group”), on 22 August 1997. On 9 July 1998, the Emporium Group was placed under judicial management, an event which significantly impaired the Group’s ability to control the Emporium Group’s assets and operations. Accordingly, the Emporium Group has not been consolidated into the Group’s financial statements since 1 April 1998.

In accordance with HKAS 27 “Consolidated and separate financial statements”, the Emporium Group is not regarded as a subsidiary of the Company and has not been consolidated into the Group’s financial statements for both years ended 31 December 2006 and 2005 since the control on the Emporium Group has been lost.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

35. Investee Companies – continued

Details of the Group's investee companies 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 share capital/registered capital held by Wescorp Limited %	Principal activities
Emporium Holdings (Singapore) Limited*	Singapore	S$2,507,519 (Class A)	96.9	Property investment and investment holding
		S$16,800,000 (Class B)	100	
Chao Phaya Thai Restaurant Pte. Limited	Singapore	S$300,000	99.6	Restaurant operations
EH Distribution Pte. Limited	Singapore	S$250,000	99.6	Trading and distribution
Emporium Department Store Pte. Limited	Singapore	S$2,000,000	99.6	Department store and supermarket operations
Katong Emporium & Supermarket Pte. Limited	Singapore	S$280,000	99.6	Property investment
Oriental Restaurant Pte. Limited	Singapore	S$250,000	99.6	Restaurant operations
Sports Stop Boutique Pte. Limited	Singapore	S$400,000	99.6	Sports goods retailing

* *The class "B" shares issued by Emporium Holdings (Singapore) Limited carry the rights to four times the dividend, bonus and right issue compared with the class "A" shares. The Group's effective interest in Emporium Holdings (Singapore) Limited and all of its wholly-owned subsidiaries at 31 December 2006 is 56%.*