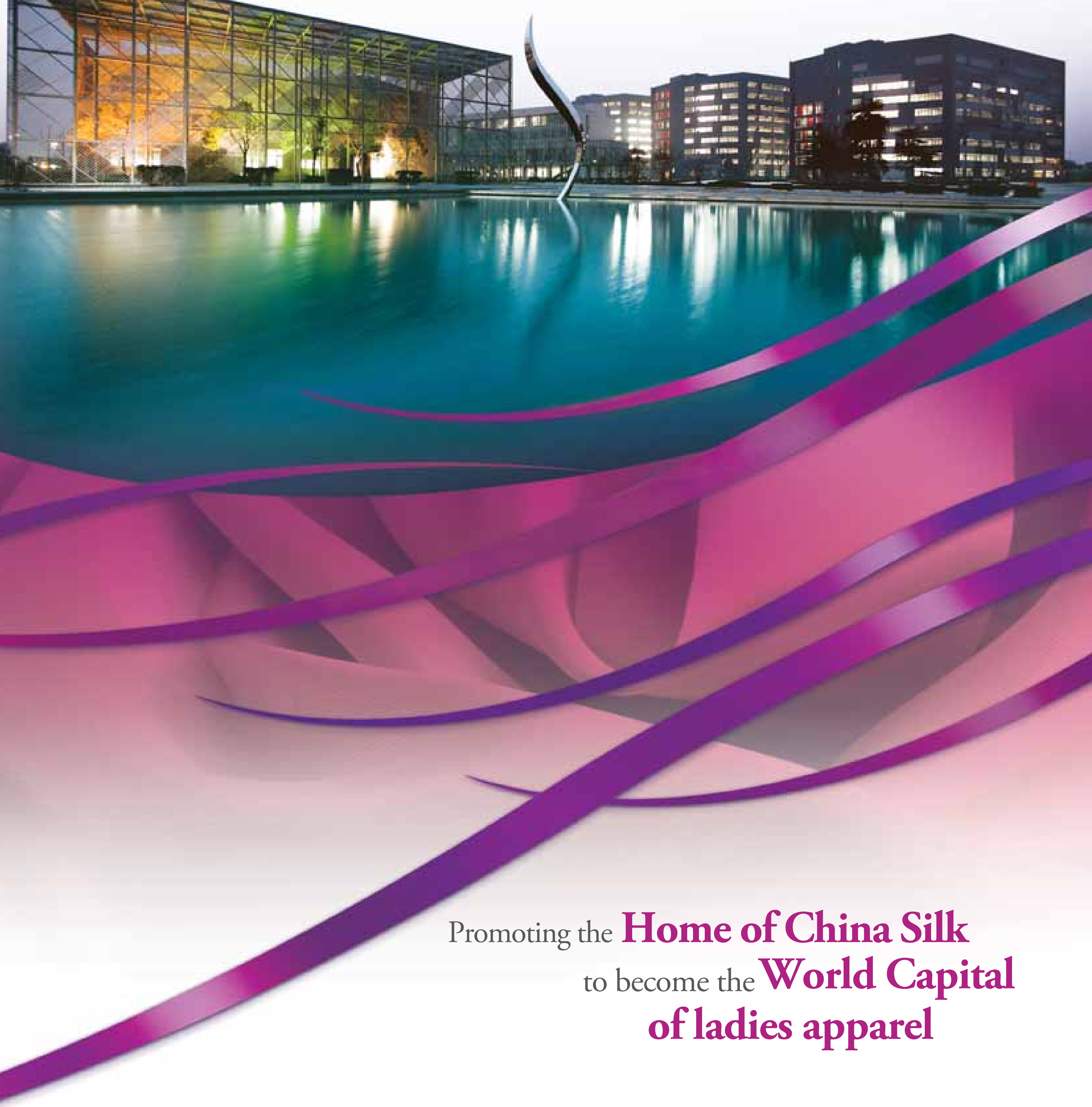
High Fashion International Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 608)

Annual Report 2007



Promoting the **Home of China Silk**
to become the **World Capital**
of ladies apparel

MISSION STATEMENT

To become
the world No.1
SILK FASHION
Apparel Leader

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CHAIRMAN'S STATEMENT

Our net profit attributable to shareholders for the year ended 31 December 2007 was HK$567 million. The Board of Directors recommends a final dividend of HK$0.05 per share. In view of the exceptional gains during the year, the Board of Directors further recommends a special dividend of HK$0.10 per share, making a combined final dividend of HK$0.15 per share. When taking into account of the interim dividend of HK$0.15 per share paid in October 2007, the total dividend payment for the year amounted to HK$0.30 per share. Net asset value per share is HK$5.

In 2007 our business development strategies formulated over the past years have been well placed and realization most appropriately timed. We achieved a record profit of HK$567 million; which included a partial sale of Theme shares together with the conversion of the Group's convertible notes into shares of Theme. Coupled with the successful capital raising of Theme through open offer of new shares, Theme's financial position has improved and its competitiveness strengthened. During the year, we are thankful for the Hangzhou municipal government's assistance in the sale of our interests in Liu Xia district, Hangzhou at market price through public auction. Combining our annual profit with the Group's forward exchange contracts gains, our net asset value has increased from HK$790 million at the beginning of the year to HK$1,660 million, an increase of 110%. Not only do these results significantly enhance our overall strength and competitiveness, they also afford us greater determination and confidence in achieving our mission to become the world's number one silk fashion apparel leader.

In this respect, we shall increase our core competence, accelerate our product development technology and capability, leverage on our world-class dyeing and printing technology spearheaded by our team of Italian experts in China, invest in human resources development and advanced equipment.

Looking ahead, the global business environment will experience greater turbulence as a result of the challenges raised by the subprime crisis, Renminbi appreciation, high oil price, inflation and the new labour law in China. Given the acute and competitive market conditions, we shall closely monitor the position.

We shall take full advantage of our present strength, vision and our previously well planned long-term development strategy. We strongly believe that our growth is sustainable by continuing to maintain a leadership role and command a larger market share in our industry. This will enable us to make a breakthrough to a higher level that has always been our mission.

With the new financial year marking our 30th anniversary, I would like to take this opportunity to express my gratitude to the shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank our staff from various regions for their dedication and contribution in furthering our mission goal.

Lam Foo Wah
Chairman

Hong Kong, 8 April 2008

High Fashion Group has **the largest silk printing and dyeing facility** in China. We have invested in excess of USD 80 million in the construction of plants and the improvement of equipments in the past two years.

To protect our environment, High Fashion Group has built **the largest solar powered heating system in Asia** which is situated in Hangzhou and hence was awarded the "Green Model Corporation" by the PRC government.

We are capable of delivering the first class printing and dyeing products through accelerating our product development technology and capability, leverage on our world-class printing and technology spearheaded by our team of Italian como experts in China.

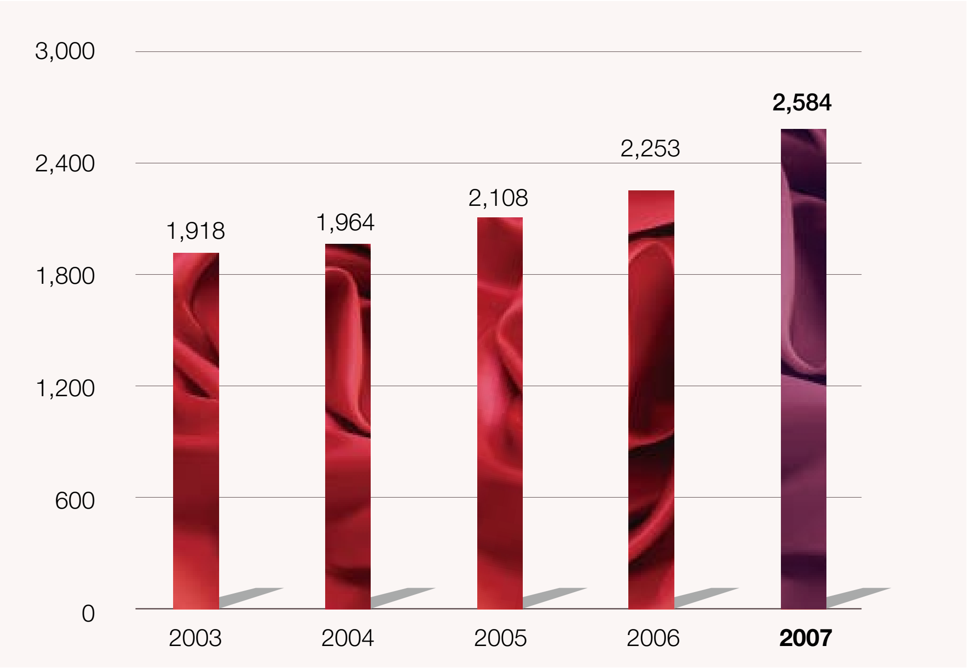
In the past year, High Fashion Group was awarded various prizes in the fields of product designs, research and development, technical advancement and innovative management. Such recognitions made us more confident of becoming the world No. 1 silk fashion apparel leader.

Phase 2 construction of the major spinning and weaving production base of High Fashion Group, has been completed successfully and the production of which has been commenced. This technologically advanced plant, with an area of over 20,000 square meters and state-of-the-art equipment, provides enormous room for the rapid development of necktie and circular knit businesses.

FINANCIAL HIGHLIGHTS

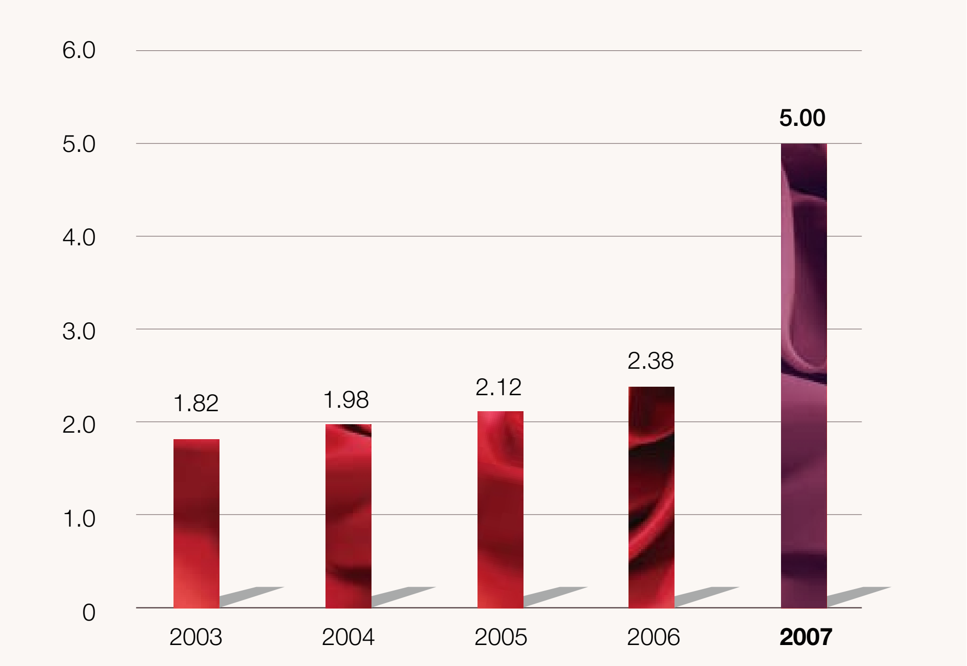
TURNOVER

(HK$ Million)



NET ASSET PER SHARE

(HK$)



RESULTS

Revenue for the year ended 31 December 2007 increased by 15% to HK$2.6 billion. Net profit attributable to shareholders for the year ended 31 December 2007 was HK$567 million, compared with a reported profit of HK$85 million of last year. There were a gain on partial disposal of interests in a subsidiary and a gain on disposal of property in Liu Xia district, Hangzhou included in the current year profit. Basic earnings per share were HK$1.7. Net asset value per share was HK$5.

REVIEW OF OPERATIONS

The segmental information is as follows:

	Revenue		Contribution	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**2,276,148**	1,974,750	**135,417**	130,131
Retailing	**308,295**	278,448	**(16,501)**	(179)
	2,584,443	2,253,198	**118,916**	129,952
By geographical segments:				
USA	**1,570,294**	1,364,138	**99,828**	100,808
Europe	**422,815**	392,703	**6,509**	2,352
Greater China	**522,052**	453,264	**4,850**	23,032
Others	**69,282**	43,093	**7,729**	3,760
	2,584,443	2,253,198	**118,916**	129,952

The Group recorded growth in both revenue and operating profit of our core manufacturing and trading business when compared with last year. The retailing business recorded an operating loss of HK$16.5 million as compared to a minimal loss in 2006.

Geographically, the United States continued to be the Group's major export market, accounting for 61% of revenue for the year of 2007. Our brand business, August Silk accounted for 32% (2006: 35%) of our revenue in the USA. August Silk's operation reported profit for two consecutive years.

Sales to the European market contributed to 16% of revenue for the year of 2007, an encouraging sign of improvement in our geographical segmentation for a well balanced business portfolio. We are now set to accelerate our business expansion in the European market with new products and intensified marketing activities.

The revenue of our retail group of Theme amounted to HK$308 million, increasing by 11% when compared with the year of 2006. The retailing business recorded a net operating loss of HK$16.5 million for the year of 2007 due to over-inventory problem and poor retail result in both PRC and Taiwan.

In 2007, a few exceptional and special events occurred, which strengthened our financial position. Capitalizing on the opportunities arising from Hong Kong's booming stock market, we managed to sell down part of the shares in Theme (including shares following the exercise of our right under the convertible notes of Theme) for proceeds of approximately HK$303 million. There was a net gain on partial disposal of Theme shares of HK$279 million. In view of the buoyant stock market, we launched an open offer of the shares in Theme and raised a total of HK$179 million, which served to improve the overall financial position and enhance the competitiveness of Theme. In November 2007, we started to increase our shareholding in Theme by acquisition of shares on the market after the open offer. Our shareholding in Theme has increased from 51.13% to 61.11% at present.

On 29 August 2007, the land located at Liuxia district, Hangzhou, was auctioned satisfactorily and our share of proceeds was RMB412 million and a net gain on surrender of land of HK$265 million was recorded.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were increased to HK$858 million at the balance sheet date compared to HK$461 million as at 31 December 2006. The increase in bank borrowing was mainly due to our hedging facilities arrangement for RMB appreciation during the year. Our gearing ratio of non-current liabilities to shareholders' funds was 35% at the balance sheet date. Current ratio has been maintained at a healthy level of 2.4.

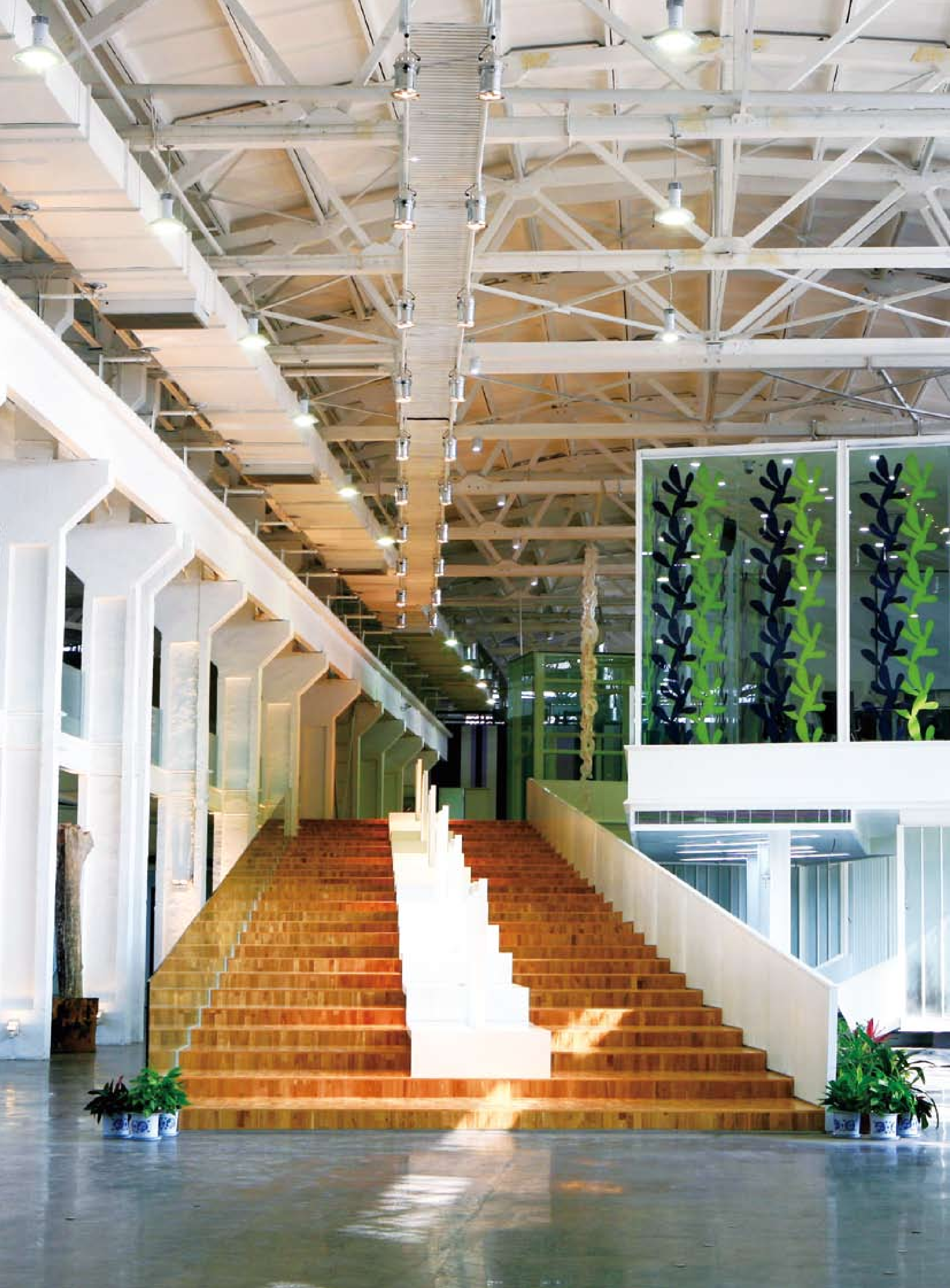
The Group's total cash and bank balances were HK$672 million at the balance sheet date. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet its operating needs.

The Group's receivables were mainly denominated in US dollar. Bank borrowings were denominated in US dollar, Hong Kong dollar and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. The Group has taken conservative approach to handle foreign currency risk with adequate hedging reserve. The Group had no borrowings at fixed interest rates during the year.

The Group has no material contingent liabilities. Barring the pledge of trade receivables, bills receivables and bank deposits of certain subsidiaries of HK$73 million, there were no charges on the Group's assets.

TAX AUDIT

The Inland Revenue Department (IRD) initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.



HUMAN RESOURCE

The total number of employees of the Group including jointly controlled entities as at the balance sheet date was about 12,300. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group entered into construction contracts to construct the production complex and living quarter complex at the Xiaoshan district of Hangzhou leading to the increase in the construction in progress and buildings by HK$191 million during the year.

Except for the above, there was no material capital expenditure during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 59, is a co-founder of the Group. Mr. Lam is the Chairman and the Managing Director of the Company. He is also the chairman of Theme International Holdings Limited. Mr. Lam oversees the Group's operations and is responsible for formulating the Group's overall policy and development. He has over 30 years of experience in the manufacturing and marketing of garments industry. Mr. Lam is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. SO Siu Hang, Patricia, aged 49, joined the Group in 1990. Ms. So is an Executive Director of the Company and responsible for the Group's strategic direction and operational leadership of the core manufacturing unit. She is also an executive director of Theme International Holdings Limited. She holds a bachelor's degree in commerce and finance from the University of Toronto and a master's degree in business administration from York University in Canada. Prior to joining the Group, she worked for an international bank.

NON-EXECUTIVE DIRECTORS

Mr. CHAN Wah Tip, Michael, aged 55, joined the Group as Company Secretary in 1992. Mr. Chan is a Non-executive Director, a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Chan was an Independent Non-executive Director of the Company prior to his re-designation as a Non-executive Director of the Company in October 2004. He has been practising as a solicitor in Hong Kong for over 20 years. Mr. Chan is a partner of Wilkinson & Grist, the legal adviser of the Company.

Professor YEUNG Kwok Wing, aged 60, joined the Group in 2000. Professor Yeung is a Non-executive Director, a member of the Audit Committee and the Remuneration Committee of the Company. He was an independent non-executive director of Theme International Holdings Limited from 2000 to 2007. He is currently an executive director of Clothing Industry Training Authority ("CITA") in Hong Kong. He holds a PhD from the Queen's University of Belfast, Northern Ireland. Professor Yeung specializes in textile product development, quality assurance and management and serves as various honorary fellows and members of international associations of textile, dyers and colorists as well. He has a long and distinguished academic career and was associated with The Hong Kong Polytechnic University ("PolyU") for more than 30 years before joining CITA in June 2006. His administrative ability is also highly appreciated in PolyU when he was posted as its Vice President overseeing academic development from 2002 to 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, aged 63, joined the Group in 1992. Mr. Woo is an Independent Non-Executive Director, a member of the Audit Committee and Remuneration Committee of the Company. He holds a bachelor's degree in architecture (Honours) from the University of California, Berkeley, the USA. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects. He has served as an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Cont'd)*

Mr. WONG Shiu Hoi, Peter, aged 67, joined the Group in 2004. Mr. Wong is an Independent Non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company. He holds a Master of Business Administration Degree from the University of East Asia, Macau (currently known as the "University of Macau"). Mr. Wong possesses over 30 years of experience in the financial services industry. He is the managing director and chief executive of Taifook Securities Group Limited and an independent non-executive director of Theme International Holdings Limited, the shares of these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Wong is the chairman of The Hong Kong Institute of Directors.

Mr. LEUNG Hok Lim*, FCPA (Aust.), CPA (Macau), FCPA (Practising)*, aged 73, joined the Group in 2004. Mr. Leung is an Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is the founder and senior partner of PKF, Accountants and Business Advisers. Mr. Leung obtained a fellowship with Hong Kong Institute of Certified Public Accountants in 1973. He is a non-executive director of Beijing Hong Kong Exchange of Personnel Centre Limited and an independent non-executive director in a number of listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. CHAN Chun Man, aged 53, joined the Group in 1992. He is the Chief Operating Officer and Chief Financial Officer of August Silk Inc. and High Fashion International (USA) Inc. He is responsible for overseeing the Group's affairs in USA. He graduated from the University of Hong Kong with a bachelor's degree in economics and pure mathematics. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Ms. CHAN Wai Wei, Cynthia, aged 35, joined the Group in 2000. Ms. Chan is the Company Secretary of the Company and has over 10 years' experience in accounting and auditing. Prior to joining the Group, she worked for an international accounting firm. She is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators.

Ms. Ellen DAWSON-BRUCKENTHAL, aged 51, is the Executive Vice President and Chief Merchandise Officer of August Silk Inc. Ms. Dawson began her career in the Executive Training Program at Bloomingdales, a division of Federated Dept. Stores in 1978 where she consequently held the positions of Store Manager, Senior Buyer and Divisional Merchandise Manager. She is a graduate of Berkeley College and holds a degree in Fashion Marketing & Management. Ms. Dawson joined August Silk Inc. in 1994.

Mr. FEI Jian Ming, aged 56, joined the Group in 1993. He is a director of High Fashion Garments Company Limited. He is the vice chairman and the general manager of High Fashion (China) Co., Ltd. He graduated from the Chinese Department of Zhejiang University. He also holds a master's degree in business administration and is a senior economist. He is a part-time professor of Zhejiang Sci-Tech University, as a master's teacher. He is the president of Hangzhou Silk Industry Association and the vice-president of Hangzhou Foreign Investment Association. He has over 20 years' management experience in clothing industry.

SENIOR MANAGEMENT *(Cont'd)*

Mr. Daniele FURLAN, aged 51, joined the Group in 2004 as a consultant. He is primarily responsible for the sales and marketing of fabrics and garments to European market and provides technical, organizational and industrial knowhow to the Group's factories. He is responsible for the product development of the Group and is the CEO of Advance Textile Centre of High Fashion (China) Co., Ltd., the supplier of finished fabrics and circular knit. He holds a diploma in business administration and a master in psychology from Padova University. Previously, he worked as a manager in the Benetton Group for more than 25 years and was responsible for various production units and sourcing divisions. In particular, he was responsible for the worldwide production licensing, fabric mill, garment, accessories and shoes outsourcing department of the Benetton Group. He was the managing director of Lanificio di Follina and also, for seven years, the managing director of Benetton (Far East) Limited in Hong Kong.

Mr. Donald Michael HORNING, aged 61, joined the Group as vice president of High Fashion Garments, Inc. in 1999. Currently, he is the president and CEO of August Silk Inc. and High Fashion Garments, Inc. He has held senior management positions in the apparel industry for the past 30 years, including Jones Apparel Group, Bugle Boy, J.H. Collectibles, and David Crystal/Izod. He graduated from Syracuse University with a bachelor's degree in business administration and attended the MBA program at The University of Chicago.

Ms. HU Ze Lin, aged 57, joined the Group in 1993. She is a director and the Deputy General Manager of High Fashion Silk (Zhejiang) Co. Ltd. and responsible for the production of that company. She attained matriculated education and is the economist in China. She has over 30 years of experience in textile industry and extensive experience in quality control in silk weaving production management.

Ms. LEUNG Suk Yin, Hilda, aged 51, has been with the Group since its inception. She is a director of High Fashion Garments Company Limited. Ms. Leung holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 30 years of experience in the sales and merchandising of garments in Hong Kong.

Mr. LIN Ping, aged 47, joined the Group in 1993. He is a Director and the General Manager of High Fashion Silk (Zhenjiang) Co., Ltd. and responsible for the operation and administration. He serves as an executive member of China Silk Association and China Fashion Color Association, a deputy general director of China Fashion Color Association Silk Committee, an executive member of Zhejiang Textile Association, an executive member of Zhejiang Province Silk Association and the deputy chairman of Xinchang Chamber of Commerce. He attains university education and is the senior economist in China. He has over 30 years' experience in textile industry and extensive experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 47, joined the Group in 1997. He is the Finance Director of a subsidiary of the Company and has over 25 years' experience in accounting field. He is a member of The Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries & Administrators. He also holds a master's degree in business administration.

SENIOR MANAGEMENT *(Cont'd)*

Mr. Daniele PACHERA, aged 52, joined the Group in 2008. He is the Chief Operating Officer of Advanced Textile Centre of High Fashion (China) Co., Ltd. He holds a diploma in Textile Chemistry from the Como Silk Textile School and a Master's degree in Silk Textile Management from the Polytechnic University in Milan (Italy). He has extensive experience in the luxury fashion sector (Ferragamo, Louis Vuitton) having worked for 14 years as Senior Manager for Mantero Seta Company in Como – Italy. His strong focus is the manufacturing of men's accessories, woman's accessories and textile for garment and bags, with a specialization in quality upgrade and product development. He has over 25 years experience in silk textile industry.

Mr. PANG Kin Wah, Julian, aged 35, joined the Group in 2004. He is the Chief Financial Officer of Garment Centre of High Fashion (China) Co., Ltd. He is a member of the Hong Kong Institute of Certified Public Accountants and has Certified of Internal Auditors (CIA) professional designation. He holds a Degree of Bachelor of Business Administration (Honours) in Accountancy from the Hong Kong Polytechnic University and a Master of Business Administration Degree from the Chinese University of Hong Kong. Prior to joining the Group, he worked for a financial institution and an international accounting firm.

Ms. Donna POACH, aged 53, joined the Group in 2006. She is the Corporate Operations Director of the Group and is responsible for all related matters of corporate production reengineering, management production systems reorganization and merchandising flow efficiency optimization. Prior to joining the Group, she held senior management positions at various companies engaging in the import garment business, including J.G. Hook in Hong Kong and Korea and worldwide for Jones Apparel Group and Chaus.

Mr. RUAN Gen Yao, aged 47, joined the Group in 2001. He is the General Manager of Hangzhou Dalifu Silk Finishing Co., Ltd. and responsible for the operation of that company. He is the politician engineer in China and Labour Model of Hangzhou and the representation of the People's Congress of Tonglu, China. He has over 10 years' experience in silk finishing and dyeing industry and extensive experience in business management.

Mr. Nicholas E. G. WRIGHT, aged 53, joined the Group in 1993. He is the Managing Director of High Fashion (U.K.) Limited. He has over 20 years of experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 52, joined the Group in 1999. He is the General Manager of Suzhou High Fashion Garments Co., Ltd. and responsible for the operation of that company. He graduated from an institution. Mr. Zhang has over 10 years of experience in silk knitting garments management and extensive experience in business management.

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 44 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Group at that date are set out in the financial statements on pages 37 to 111.

An interim dividend of 5 HK cents and a special dividend of 10 HK cents per ordinary share were paid on 10 October 2007. The directors recommended the payment of a final dividend of 5 HK cents and a special dividend of 10 HK cents per ordinary share in respect of the year to shareholders on the register of members on 13 June 2008.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 33 to the financial statements.

SHARE OPTION INFORMATION

A summary of the share option schemes and details of the movement in share option of the Company during the year are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 6,366,000 (2006: 110,000) ordinary shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as follows:

Month	Number of shares	Price per share Highest	Price per share Lowest	Aggregate Consideration paid
		HK$	HK$	HK$
January 2007	580,000	1.50	1.45	869,900
February 2007	78,000	1.60	1.46	119,880
March 2007	380,000	1.70	1.62	627,700
June 2007	198,000	3.55	3.40	675,900
July 2007	1,898,000	3.65	3.45	6,719,220
August 2007	578,000	3.75	3.63	2,131,940
September 2007	260,000	3.49	3.34	890,460
October 2007	2,134,000	3.42	3.10	7,166,220
November 2007	260,000	3.08	2.90	781,360
	6,366,000			19,982,580

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares of HK$19,345,980 (2006: HK$148,500) has been charged to the share premium account and accumulated profits. An amount equivalent to the par value of the shares cancelled has been transferred from the accumulated profits of the Company to the capital redemption reserve.

The repurchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed herein, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of The Companies Act 1981 of Bermuda (as amended), amounted to HK$157,706,000, of which HK$16,441,000 and HK$32,882,000 have been proposed as final and special dividend for the year respectively. In addition, the Company's share premium account, in the amount of HK$290,822,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$753,000 (2006: HK$815,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 35.8% of the total sales for the year and sales to the largest customer included therein amounted to 13.3%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Lam Foo Wah
Hui Yip Wing (resigned on 1 August 2007)
Wong Shing Loong, Raymond (resigned on 30 April 2007)
So Siu Hang, Patricia

Non-executive directors:

Chan Wah Tip, Michael
Yeung Kwok Wing (appointed on 1 March 2007)

Independent non-executive directors:

Woo King Wai
Wong Shiu Hoi, Peter
Leung Hok Lim

In accordance with bye-law 87 of the Company's Bye-laws, Messrs. Lam Foo Wah, Wong Shiu Hoi, Peter and Leung Hok Lim will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

INDEPENDENCE CONFIRMATION

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2007, and the Company considered that they are independent.

DIRECTORS' EMOLUMENT

Details of the Directors' emoluments for year 2007 are set out in the Remuneration Committee of the Corporate Governance Report on page 31, and particulars as required to be disclosed pursuant to Appendix 16 of the Listing Ruls are set out in notes 8 and 9 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the section "Related Party Transactions" in note 42 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2007 are disclosed in note 42 to the financial statements.

CONNECTED TRANSACTION

On 7 May 2007, Mr. Fei Jian Ming (the "Vendor"), a director of High Fashion (China) Co., Ltd. ("HFC") and 杭州西湖春雷絲綢有限公司 (Hangzhou Xiwu Chun Lui Silk Co., Ltd.*) ("Chun Lui") has entered into an agreement with HFC (the "Purchaser") for the sale and purchase of 26.55% of the equity interest in the registered and paid-up capital of Chun Lui, which is beneficially owned by the Vendor, at a consideration of RMB16,000,000 (the "Acquisition").

The Acquisition constitutes a connected transaction of the Company since the Vendor is a director of the Purchaser and Chun Lui which is 73.45% owned by the Purchaser, an indirect wholly-owned subsidiary of the Company.

The terms of the Acquisition, which were agreed after arm's length negotiation between the Vendor and the Purchaser, are on normal commercial terms and the Board (including the independent non-executive directors) considers that the terms of the Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Details of the above transaction set out in the announcement dated 14 May 2007.

DIRECTORS' AND CHIEF EXECUTIVES' LONG AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the long and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including long and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares

Name of Directors	*Note(s)*	**Capacity**	**Nature of interests**	**Number of shares held**	**Percentage of the Company's issued capital** *(Note 3)*
Lam Foo Wah	*1, 2*	Other Interest	Other	143,719,986	43.71%
So Siu Hang, Patricia		Beneficial owner	Personal	2,824,309	0.86%

DIRECTORS' AND CHIEF EXECUTIVES' LONG AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Cont'd)*

(ii) Long Position in Shares of Associated Corporation

Name of Director	*Note*	Name of associated corporation	Relationship with the Company	Capacity	Number of ordinary shares held	Percentage of the associated corporation's issued capital
Lam Foo Wah	*4*	High Fashion Knitters Limited	Subsidiary	Interest of controlled corporations	5,339,431	35.60%

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 108,802,419 ordinary shares which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

2. Mr. Lam Foo Wah is deemed to have an interest in 34,917,567 ordinary shares which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.

3. The issued share capital of the Company is 328,815,550 shares as at 31 December 2007.

4. These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, as at 31 December 2007, none of the directors, chief executives of the Company nor their associates had or was deemed to have any long or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Information" section above, at no time during the year ended 31 December 2007 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following substantial shareholders, other than directors and chief executives of the Company, had the long and short positions in the shares and underlying shares of the Company which have been disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to section 336 of SFO:

Long Positions in the Company's Ordinary Shares:

Name of Shareholders	*Notes*	**Capacity**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital** *(note 3)*
Hinton Company Limited	*1*	Beneficial owner	108,802,419	33.09%
Veer Palthe Voute NV ("VPV")	*2*	Investment manager	49,337,000	15.00%
Dresdner Bank Aktiengesellschaft ("DBAG")	*2*	Interest of controlled corporations	49,337,000	15.00%
Allianz Aktiengesellschaft ("AAG")	*2*	Interest of controlled corporations	49,337,000	15.00%
High Fashion Charitable Foundation Limited	*1*	Beneficial owner	34,917,567	10.62%

Notes:

1. Such interests have been disclosed as interests of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Long and Short Positions in Shares, Underlying Shares and Debentures" above.

2. The 49,337,000 ordinary shares are held directly by VPV, of which is indirectly controlled by AAG and DBAG and therefore AAG and DBAG are deemed to have an indirect interest in the 49,337,000 ordinary shares.

3. The issued share capital of the Company is 328,815,550 shares as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Long and Short Positions in Shares, Underlying Shares and Debentures" above, had registered a long or short position in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting year ended 31 December 2007, except code provision on A.2.1 on the separate roles of the chairman and CEO. Details of the Company's corporate governance report are set out on pages 27 to 34.

AUDITOR

The financial statements for the year ended 31 December 2007 were audited by Deloitte Touche Tohmatsu.

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman

Hong Kong, 8 April 2008

The Board of Directors ("Board") and the management of the Company are committed to establishment and maintaining of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and accountability and transparency to all shareholders.

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31 December 2007, except code provision on A.2.1 on the separate roles of the chairman and chief executive officer ("CEO") as described below.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

At the year end, the Board of the Company consisted of a total of seven directors, comprising two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. One of the three Independent Non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The names of Directors and their positions during the year were as follows:

Name of Director	**Position**
Executive Directors:	
Mr. Lam Foo Wah	Chairman and Managing Director
Mr. Hui Yip Wing *(note 1)*	Executive Director
Mr. Wong Shing Loong, Raymond *(note 2)*	Executive Director
Ms. So Siu Hang, Patricia	Executive Director
Non-executive Directors:	
Mr. Chan Wah Tip, Michael	Non-executive Director
Professor Yeung Kwok Wing *(note 3)*	Non-executive Director
Mr. Woo King Wai	Independent Non-executive Director
Mr. Wong Shiu Hoi, Peter	Independent Non-executive Director
Mr. Leung Hok Lim	Independent Non-executive Director

Notes:

1. Mr. Hui Yip Wing resigned on 1 August 2007.

2. Mr. Wong Shing Loong, Raymond resigned on 30 April 2007.

3. Professor Yeung Kwok Wing was appointed on 1 March 2007.

BOARD COMPOSITION AND BOARD PRACTICES *(Cont'd)*

One-third member in the Board is Independent Non-executive Director and each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years in accordance with the Company's Bye-laws and the CG Code. In accordance with the Company's Bye-Laws, newly appointed director(s) is/are required to retire and can offer themselves for re-election at the first general meeting following their appointment.

The Board meets regularly and hold meeting four times during the year for facilitating the function of the Board. In any event all Directors were available for consultation by management from time to time during the year. The attendance of individual director to the Board meeting is set out on page 32 of this report.

Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out on pages 15 to 18.

In order to ensure that the Board is able to fulfill its responsibilities, it has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 30 to 32 of this report.

The Company provides at least 14 days' notice of every Board meeting to all Directors to give them an opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

The Qualified Accountant and the Company Secretary shall attend the regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to seek independent professional advice whenever deemed necessary by the Directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

All Directors should have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman of the Board ("Chairman") and the Managing Director are held and performed by Mr. Lam Foo Wah, the same individual. Although it deviates from the code provision A.2.1 of the CG Code, the Board considers that the function of the Chairman and the Managing Director in the Company's strategic planning and development process are overlapping and it may not be for the benefit of the Company to have separate individuals occupying these two offices given the conditions of the Group and its stage of development.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's overall strategies and policies; evaluating the performance of the Group; and oversight of management. One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman who is also the Managing Director. The Managing Director, working with the other executive directors and the executive management team of each business division, is responsible for managing the businesses of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group. All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. Apart from the regular Board meetings, the Chairman may hold meetings with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions.

Confirmation has been sought from all Directors and they have complied with the required standard set out in the Model Code for the year ended 31 December 2007.

The Company has established the written guidelines on no less exacting terms than the Model Code relating to securities transactions for the relevant employees.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the finance department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is in a timely manner.

The report of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 35 to 36.

AUDITORS' REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu. For the year ended 31 December 2007, the Auditors of the Company received approximately HK$4,400,000 for audit service and HK$148,000 for tax and consultancy services.

AUDIT COMMITTEE

During the financial year, the audit committee of the Company (the "Audit Committee") comprises two Non-executive Directors namely, Mr. Chan Wah Tip, Michael and Professor Yeung Kwok Wing and three Independent Non-executive Directors, namely, Mr. Leung Hok Lim (the Chairman of the Audit Committee), Mr. Woo King Wai and Mr. Wong Shiu Hoi, Peter.

In April 2008, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2007.

The Company has complied with the requirement of the Listing Rules in establishing an audit committee comprising at least three members who must be Non-executive Directors only, and the majority thereof must be Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Audit Committee adopted the terms of reference with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and in accordance with the requirements of the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

AUDIT COMMITTEE *(Cont'd)*

The main duties of the Audit Committee are set out below:

(i) to recommend to the Board on the appointment, reappointment and removal of the external auditors, and any questions of resignation or dismissal of the auditors;

(ii) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(iii) to develop and implement policy on the engagement of external auditors to supply non-audit services;

(iv) to monitor integrity of financial statements of the Company and the Company's annual and interim reports and accounts, and to review significant financial reporting judgments contained in such reports;

(v) to review the Company's financial controls, internal control and risk management systems; and

(vi) to review the Group's financial and accounting policies and practices.

The Audit Committee held two regular meetings during the year to review and provide supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the Auditors of the Company. The members' attendance to the Committee meeting is listed out on page 32.

Minutes drafted by the secretary of Audit Committee are circulated to members of the Audit Committee within a reasonable time after each meeting.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

REMUNERATION COMMITTEE

According to the requirement of the CG Code, the Company established the remuneration committee of the Company ("Remuneration Committee") in August 2005. During the year, the Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman of the Remuneration Committee), Mr. Chan Wah Tip, Michael, Professor Yeung Kwok Wing, Mr. Woo King Wai and Mr. Leung Hok Lim. A regular meeting of Remuneration Committee has been convened in September 2007 and members' attendance to the Committee meeting is listed out on page 32.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website.

REMUNERATION COMMITTEE *(Cont'd)*

The Remuneration Committee shall consult the Chairman about their proposals relating to remuneration package and other human resources issues of the directors and senior management of the Company. The emoluments of directors and senior management are based on the skill, knowledge and involvement in the Company's affairs of each director and senior management and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. In addition, details of the Company's share option granted to directors and senior management are set out in note 34 to the financial statements.

NOMINATION OF DIRECTORS

The Company has not established any nomination committee and would not consider establishing a nomination committee owing to the small size of the Board. The Chairman of the Board is responsible for making recommendations to the Board on the appointment of directors, evaluation of board composition and the management of board succession. The Board carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary.

Records of attendance for Board and respective Board Committees Meetings held during the year:

	Attendance/Number of Meetings held		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Directors:			
Mr. Lam Foo Wah	4/4	N/A	N/A
Mr. Hui Yip Wing	3/3	N/A	N/A
Mr. Wong Shing Loong, Raymond	1/1	N/A	N/A
Ms. So Siu Hang, Patricia	4/4	N/A	N/A
Non-executive Directors:			
Mr. Chan Wah Tip, Michael	4/4	2/2	1/1
Professor Yeung Kwok Wing	3/4	2/2	1/1
Independent Non-executive Directors:			
Mr. Woo King Wai	4/4	2/2	1/1
Mr. Wong Shiu Hoi, Peter	3/4	2/2	1/1
Mr. Leung Hok Lim	2/4	2/2	1/1

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board conducts reviews of the effectiveness of the internal control system for the year ended 31 December 2007 covering all material controls, including financial, operational and compliance controls and risk management functions by considering reviews performed by the Audit Committee, executive management and both the group internal audit department and external auditors. The Group's system of internal control comprises a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The criteria for the Board to assess the effectiveness of the system of internal control are listed below:

(i) **Organisational Structure**

An organisational structure with operating policies and procedures, lines of responsibility and delegated authority has been already established.

(ii) **Authority and Control**

The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. The Board shall be responsible for handling and dissemination of price sensitive information through discussion and delegation of authority to the Company Secretary.

(iii) **Budgetary Control and Financial Reporting**

Budgets are prepared annually by the senior management and are subject to review and approval of the Executive Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

(iv) **Systems and Procedures**

Systems and procedures are set to identify, measure, manage and control risks including business, compliance, operational, financial and information services risks that may have an impact on the Group and each principal division. Exposure to these risks is monitored by the Executive Directors and the management of the respective principal divisions.

(v) **Internal Audit**

The group internal audit department performs independent reviews of the controls and risks identified to provide reasonable assurance to management of the Company and principal divisions and the Audit Committee that controls have been set in place and adequately addressed.

INTERNAL CONTROL *(Cont'd)*

The group internal audit department monitors compliance with policies and procedures as well as the effectiveness of internal control structures across the Company and the Group. To preserve the independence of the group internal audit department, the group internal audit department reports directly to the Audit Committee. The group internal audit department plans its internal audit schedules annually in consultation with, but independent of, management of the Group and the principal divisions. In addition to its agreed annual schedule of work, the group internal audit department conducts other special reviews as required. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the group internal audit department and also the corrective actions taken by relevant departments.

According to the 2007 internal audit reports, the Group's internal control system is functioning effectively and there was no significant weakness found in the course of the audits carried out during the year. The Board, through the Audit Committee and the internal audit function, has reviewed the effectiveness of the Group's internal control systems and is of the view that there are no suspected frauds, irregularities, internal control deficiencies or suspected infringement of laws, rules and regulations that cause the Board to believe that the systems of internal control are ineffective or inadequate. The Board is satisfied that the Company and the Group have fully complied with the code provisions on internal control as set forth in the CG Code for the year ended 31 December 2007.

COMMUNICATION WITH SHAREHOLDERS

At 2007 Annual General Meeting ("2007 AGM"), a separate resolution was proposed by the Chairman of that meeting in respect of each separate issue, including the re-election of directors. The Chairman of the Board, and Chairmen of the Audit and Remuneration Committees, or in absence of the chairman of such committees, any member from the respective committees, attended the 2007 AGM to address shareholders queries.

The rights of shareholders to demand a poll and the procedures for a poll voting on resolutions at shareholders' meetings are contained in the bye-laws of the Company. Details of such rights and procedures are included in the circulars in relation to shareholders' meeting(s).

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) the Company's website offers communication channel between the Company and its shareholders and investors; and (iv) the Company's Sub-Registrar and Transfer Agent in Hong Kong serve the shareholders respecting all share registration matters.

Deloitte.
德勤

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED
達利國際集團有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 111, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
8 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Revenue	5	**2,584,443**	2,253,198
Cost of sales		**(1,868,419)**	(1,569,836)
Gross profit		**716,024**	683,362
Other income		**33,439**	52,903
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	11	**359,769**	(795)
Gain on partial disposal of shares in a subsidiary	11	**279,392**	–
Increase in fair value of investment properties		**4,450**	4,000
Administrative expenses		**(333,471)**	(309,068)
Distribution and selling expenses		**(295,676)**	(296,245)
Finance costs	7	**(32,168)**	(30,159)
Change in fair value of derivative financial instruments		**(17,506)**	–
Impairment loss recognised in respect of property, plant and equipment		**(1,400)**	(1,000)
Share of (loss) profit of jointly controlled entities		**(161)**	1,176
Profit before taxation		**712,692**	104,174
Income tax expense	10	**(157,315)**	(19,030)
Profit for the year	11	**555,377**	85,144
Attributable to			
Equity holders of the Company		**566,616**	85,118
Minority interests		**(11,239)**	26
		555,377	85,144
Earnings per share	13		
Basic		**HK$1.70**	HK$0.26
Diluted		**HK$1.70**	HK$0.25

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	14	**733,011**	490,635
Prepaid lease payments	15	**76,207**	76,404
Investment properties	16	**85,920**	68,000
Goodwill	17	**23,808**	1,800
Intangible assets	18	**11,094**	12,765
Investments in associates	19	**–**	–
Investments in jointly controlled entities	20	**19,537**	16,459
Available-for-sale investments	21	**675**	675
Deferred tax assets	31	**6,347**	3,908
Deposit of acquisition of land use right	15	**17,172**	–
		973,771	670,646
Current assets			
Inventories	22	**407,756**	406,410
Trade receivables	23	**328,431**	330,547
Bills receivable	24	**59,997**	39,960
Prepaid lease payments	15	**1,441**	2,203
Deposits, prepayments and other receivables	24, 35	**508,446**	96,585
Amounts due from jointly controlled entities	25	**10,014**	–
Tax recoverable		**32,382**	15,582
Derivative hedging instruments	26	**317,254**	6,513
Pledged bank deposits	38	**108**	100
Bank balances and cash	24	**671,676**	219,126
		2,337,505	1,117,026
Current liabilities			
Trade payables	27	**296,077**	249,713
Bills payable	24	**4,468**	4,026
Other payables and accruals	24	**176,707**	214,729
Amounts due to jointly controlled entities	25	**–**	9,234
Amount due to an associate	25	**597**	600
Tax payable		**116,663**	42,597
Derivative financial instruments	30	**17,506**	–
Derivative hedging instruments	26	**1,400**	–
Obligations under finance leases	28	**337**	406
Bank borrowings	29	**374,167**	400,814
Bank overdrafts	29	**599**	1,051
		988,521	923,170
Net current assets		**1,348,984**	193,856
Total assets less current liabilities		**2,322,755**	864,502

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Obligations under finance leases	28	**231**	220
Bank borrowings	29	**483,000**	59,500
Deferred tax liabilities	31	**89,564**	8,560
Provision for long service payments	32	**929**	1,315
		573,724	69,595
		1,749,031	794,907
Capital and reserves			
Share capital	33	**32,881**	33,416
Share premium and reserves		**1,626,511**	755,472
Equity attributable to equity holders of the Company		**1,659,392**	788,888
Minority interests		**89,639**	6,019
Total equity		**1,749,031**	794,907

The consolidated financial statements on pages 37 to 111 were approved and authorised for issue by the Board of Directors on 8 April 2008 and are signed on its behalf by:

Lam Foo Wah
Director

So Siu Hang, Patricia
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital	Share premium account	Translation reserve	Reserve funds	Property revaluation reserve	Capital redemption reserve	Hedging reserve	Other reserve	Accumulated profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Note i)	*(Note ii)*			*(Note iii)*				
At 1 January 2006	33,315	295,684	8,180	6,332	–	4,703	4,000	–	353,128	705,342	800	706,142
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	–	5,193	5,193
Gain on fair value changes on cash flow hedges	–	–	–	–	–	–	6,513	–	–	6,513	–	6,513
Exchange difference arising on translation	–	–	21,657	–	–	–	–	–	–	21,657	–	21,657
Share of reserve of jointly controlled entities	–	–	588	–	–	–	–	–	–	588	–	588
Net income recognised directly in equity	–	–	22,245	–	–	–	6,513	–	–	28,758	5,193	33,951
Profit for the year	–	–	–	–	–	–	–	–	85,118	85,118	26	85,144
Transfer to profit or loss on cash flow hedges	–	–	–	–	–	–	(4,000)	–	–	(4,000)	–	(4,000)
Total recognised income and expense for the year	–	–	22,245	–	–	–	2,513	–	85,118	109,876	5,219	115,095
Transfer from accumulated profits to other reserve	–	–	–	–	–	–	–	39,853	(39,853)	–	–	–
Transfer to accumulated profits upon deregistration of subsidiaries	–	–	–	(2,462)	–	–	–	–	2,462	–	–	–
Transfer to reserve funds	–	–	–	1,863	–	–	–	–	(1,863)	–	–	–
Exercise of share options	112	454	–	–	–	–	–	–	–	566	–	566
Repurchase of shares, include direct costs	(11)	(97)	–	–	–	11	–	–	(63)	(160)	–	(160)
Final dividend paid	–	–	–	–	–	–	–	–	(16,708)	(16,708)	–	(16,708)
Interim dividend paid	–	–	–	–	–	–	–	–	(10,028)	(10,028)	–	(10,028)
	101	357	–	(599)	–	11	–	39,853	(66,053)	(26,330)	–	(26,330)
At 31 December 2006	33,416	296,041	30,425	5,733	–	4,714	6,513	39,853	372,193	788,888	6,019	794,907

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium account HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 *(Note i)*	Property revaluation reserve HK$'000 *(Note ii)*	Capital redemption reserve HK$'000	Hedging reserve HK$'000	Other reserve HK$'000 *(Note iii)*	Accumu-lated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Gain on fair value changes on cash flow hedges	–	–	–	–	–	–	339,003	–	–	339,003	–	339,003
Exchange difference arising on translation	–	–	75,676	–	–	–	–	–	–	75,676	1,556	77,232
Share of reserve of jointly controlled entities	–	–	1,827	–	–	–	–	–	–	1,827	–	1,827
Surplus on revaluation of properties	–	–	–	–	11,766	–	–	–	–	11,766	–	11,766
Deferred taxation arising on surplus on revaluation of properties	–	–	–	–	(2,059)	–	–	–	–	(2,059)	–	(2,059)
Net income recognised directly in equity	–	–	77,503	–	9,707	–	339,003	–	–	426,213	1,556	427,769
Profit for the year	–	–	–	–	–	–	–	–	566,616	566,616	(11,239)	555,377
Transfer to profit or loss on cash flow hedges	–	–	–	–	–	–	(29,662)	–	–	(29,662)	–	(29,662)
Total recognised income for the year	–	–	77,503	–	9,707	–	309,341	–	566,616	963,167	(9,683)	953,484
Decrease in minority interest as a result of acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	(17,170)	(17,170)
Increase in minority interest as a result of conversion of convertible notes granted from a subsidiary	–	–	–	–	–	–	–	–	–	–	15,272	15,272
Contribution from minority interests	–	–	–	–	–	–	–	–	–	–	85,914	85,914

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company											
	Share capital	Share premium account	Translation reserve	Reserve funds	Property revaluation reserve	Capital redemption reserve	Hedging reserve	Other reserve	Accumulated profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Note i)	*(Note ii)*			*(Note iii)*				
Increase in minority interest as a result of partial disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	9,287	9,287
Transfer to reserve funds	–	–	–	8,368	–	–	–	–	(8,368)	–	–	–
Exercise of share options	102	413	–	–	–	–	–	–	–	515	–	515
Repurchase of shares, include direct costs	(637)	(5,632)	–	–	–	637	–	–	(14,436)	(20,068)	–	(20,068)
Final dividend paid	–	–	–	–	–	–	–	–	(23,390)	(23,390)	–	(23,390)
Interim and special dividend paid	–	–	–	–	–	–	–	–	(49,720)	(49,720)	–	(49,720)
	(535)	(5,219)	–	8,368	–	637	–	–	(95,914)	(92,663)	93,303	640
At 31 December 2007	32,881	290,822	107,928	14,101	9,707	5,351	315,854	39,853	842,895	1,659,392	89,639	1,749,031

Notes:

(i) As stipulated by the relevant People's Republic of China ("PRC") laws and regulations, before distribution of the net profit each year, the subsidiaries established in the PRC with limited liability shall set aside 10% of their net profit to the statutory surplus reserve. The statutory surplus reserve can only be used upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(ii) Property revaluation reserve represents the revaluation reserve arising upon the transfer of owner-occupied property and respective prepaid lease payments to investment property, net of deferred tax. The property revaluation reserve will be transferred to accumulated profits when the relevant properties are disposed of.

(iii) Other reserve represents capitalisation of accumulated profits of a subsidiary as capital contribution to another subsidiary.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**712,692**	104,174
Adjustments for:		
Allowance for inventory obsolescence	**15,929**	6,667
Allowance for bad and doubtful debts	**7,933**	3,850
Amortisation of prepaid lease payments	**2,746**	2,206
Finance costs	**32,168**	30,159
Share of loss (profit) of jointly controlled entities	**161**	(1,176)
Interest income	**(5,585)**	(4,428)
Increase in fair value of investment properties	**(4,450)**	(4,000)
Depreciation of property, plant and equipment	**54,317**	59,651
(Gain) loss on disposal of property, plant and equipment and prepaid lease payments	**(359,769)**	795
Amortisation of trademarks	**1,687**	1,187
Change in fair value of derivative financial instruments	**17,506**	–
Gain on partial disposal of shares in a subsidiary	**(279,392)**	–
Impairment loss recognised in respect of property, plant and equipment	**1,400**	1,000
Operating cash flows before movements in working capital	**197,343**	200,085
Increase in inventories	**(17,275)**	(73,344)
Decrease (increase) in trade receivables	**10,710**	(61,646)
(Increase) decrease in bills receivable	**(18,039)**	5,201
Increase in deposits, prepayments and other receivables	**(58,959)**	(27,601)
Increase in trade payables	**46,364**	77,456
Increase (decrease) in bills payable	**442**	(1,986)
(Decrease) increase in other payables and accruals	**(52,547)**	78,427
Provision for long service payments utilised	**(386)**	(709)
Cash generated from operations	**107,653**	195,883
Hong Kong Profits Tax paid	**(19,295)**	(15,582)
Overseas taxes paid	**(4,535)**	(9,935)
NET CASH FROM OPERATING ACTIVITIES	**83,823**	170,366
INVESTING ACTIVITIES		
Proceeds on partial disposal of shares in a subsidiary	**303,202**	–
Proceeds on disposal of property, plant and equipment and prepaid lease payments	**76,766**	4,310
Interest received	**5,585**	4,428
Deposit on land use rights	**(17,172)**	–
Decrease in pledged bank deposits	**–**	59
Purchases of property, plant and equipment	**(312,657)**	(153,405)
Acquisition of additional interests in subsidiaries	**(33,442)**	–
(Advances to) repayment from jointly controlled entities	**(19,248)**	4,692

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	NOTE	2007 HK$'000	2006 HK$'000
Prepaid lease payments		**(3,368)**	(30,518)
Capital contribution to a jointly controlled entity		**(2,000)**	–
Acquisition of assets		**–**	(13,414)
Acquisition of business	*43*	**–**	(15,954)
NET CASH USED IN INVESTING ACTIVITIES		**(2,334)**	(199,802)
FINANCING ACTIVITIES			
New bank loans raised		**827,863**	554,673
Contribution from minority shareholders		**85,914**	–
Increase in trust receipt loans		**1,917**	181
Exercise of share options		**515**	566
Repayment of bank borrowings		**(432,927)**	(461,870)
Dividends paid		**(73,110)**	(26,736)
Interest paid		**(23,595)**	(22,092)
Advance to an associate		**(3)**	(2)
Payment for repurchase of shares		**(20,068)**	(160)
Bank charges paid		**(6,404)**	(4,791)
Factoring expenses paid		**(2,128)**	(3,239)
Repayments of obligations under finance leases		**(436)**	(350)
Interest paid on obligations under finance leases		**(41)**	(37)
NET CASH FROM FINANCING ACTIVITIES		**357,497**	36,143
NET INCREASE IN CASH AND CASH EQUIVALENTS		**438,986**	6,707
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**218,075**	204,033
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**14,016**	7,335
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**671,077**	218,075
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**671,676**	219,126
Bank overdrafts		**(599)**	(1,051)
		671,077	218,075

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 113 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 Group are the manufacture, retailing and trading of garments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

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. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendments) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirement of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC)-INT 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC)-INT 12	Service concession arranagements[4]
HK(IFRIC)-INT 13	Customer loyalty programmes[5]
HK(IFRIC)-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

[1] Effective for accounting periods beginning on or after 1 January 2009.
[2] Effective for accounting periods beginning on or after 1 July 2009
[3] Effective for accounting periods beginning on or after 1 March 2007.
[4] Effective for accounting periods beginning on or after 1 January 2008.
[5] Effective for accounting periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first accounting reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

Except for the above, 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.

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 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.

Goodwill on acquisition of additional interests in a subsidiary is calculated as the difference between the consideration paid for the additional interests and the book value of the net assets of the subsidiary attributable to the additional interests acquired.

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

Business combinations

The acquisition of business 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.

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on acquisition of business or additional interest in a business is presented separately in the consolidated balance sheet.

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 the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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

Interests in associates

An associate is an entity over which the Group has a 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 net assets of 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, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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

Revenue recognition

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

Revenue from sale of goods is 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.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or for administrative purposes, other than construction in progress, 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, other than construction in progress, over their estimated useful lives and taking into account their estimated residual value, using the straight-line method.

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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

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.

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.

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

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 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).

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties 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 consolidated income statement in the year in which the item is derecognised.

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.

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 consolidated 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.

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

Leasing *(Cont'd)*

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group 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 translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

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

Borrowing costs

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

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 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.

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense and the remaining balance are reported separately as 'other income'.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment losses on tangible and intangible assets below.)

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

Inventories

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

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 consolidated 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 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.

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

Financial instruments *(Cont'd)*

Financial assets

The Group's financial assets include loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on 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 marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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 receivable, deposits and other receivables, amounts due from jointly controlled entities, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables or held-to-maturity investments. The Group classified financial instruments that the Group acquired for long term investments as 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 (see accounting policy on impairment loss on financial assets below).

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

Financial instruments *(Cont'd)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial instruments *(Cont'd)*

Impairment of financial assets (Cont'd)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit and loss ("FVTPL") and other liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities at FVTPL is financial liability held for trading. It represents a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade payables, bills payable, other payables, amounts due to jointly controlled entities, amount due to an associate, bank overdrafts and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity *(Cont'd)*

Equity instruments

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

Upon repurchase of the Company's own shares, the respective shares are subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company is diminished by the nominal value thereof. The premium payable on repurchase was charged against the Company's share premium account. An amount equal to the nominal value of the shares repurchased is transferred from accumulated profits to capital redemption reserve.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

The Group designates certain derivatives as hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges). The hedged item represents highly probable forecast intragroup transactions which are denominated in a currency other than the functional currency of the entity entering into the transactions and the foreign currency risk under the hedging arrangement will affect consolidated profit or loss.

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity (Cont'd)

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.

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 or payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees on or before 7 November 2002

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is HK$23,808,000 (2006: HK$1,800,000). Details of the recoverable amount calculation are disclosed in note 17.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Fair value of derivatives and other financial instruments

As described in notes 26 and 30, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The carrying amounts of the financial derivatives are set out in notes 26 and 30.

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.

Income taxes

The Hong Kong Inland Revenue Department ("IRD") initiated a tax audit on certain group companies for the years of assessment 1999/2000, 2000/01 and 2001/02. 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 10 for details).

5. REVENUE

Revenue represents the amount received and receivable for goods sold by the Group, net of discount and sales related tax. An analysis of the Group's revenue is as follows:

	2007	2006
	HK$'000	HK$'000
Manufacture and trading of garments	**2,276,148**	1,974,750
Retailing of garments	**308,295**	278,448
	2,584,443	2,253,198

6. 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 2007

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	2,276,148	308,295	–	2,584,443
Inter-segment sales *(note)*	–	8,643	(8,643)	–
Total	2,276,148	316,938	(8,643)	2,584,443
RESULT				
Segment result	349,802	53,040		402,842
Unallocated other income				33,439
Unallocated corporate expenses				(333,471)
Share of profit (loss) of jointly controlled entities	1,295	(1,456)		(161)
Increase in fair value of investment properties				4,450
Gain (loss) on disposal of property, plant and equipment and prepaid lease payments	361,172	(1,403)		359,769
Gain on partial disposal of shares in a subsidiary				279,392
Impairment loss recognised in respect of property, plant and equipment				(1,400)
Finance costs				(32,168)
Profit before taxation				712,692
Income tax expense				(157,315)
Profit for the year				555,377

Note: Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.

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

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

Consolidated balance sheet as at 31 December 2007

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	2,244,822	239,795	2,484,617
Investment in jointly controlled entities	18,993	544	19,537
Unallocated corporate assets			807,122
Consolidated total assets			3,311,276
LIABILITIES			
Segment liabilities	428,190	68,897	497,087
Unallocated corporate liabilities			1,065,158
Consolidated total liabilities			1,562,245

Other information for the year ended 31 December 2007

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
Additions to property, plant and equipment	295,361	17,674	313,035
Addition to goodwill	–	22,008	22,008
Depreciation of property, plant and equipment	42,698	11,619	54,317
Gain on derivative hedging instruments transferred from equity	(29,662)	–	(29,662)
Amortisation of trademarks	687	1,000	1,687
Allowance for bad and doubtful debts	7,016	917	7,933
Allowance for inventory obsolescence	7,805	8,124	15,929

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

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

Consolidated income statement for the year ended 31 December 2006

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Eliminations HK$'000	Consolidated HK$'000
REVENUE				
External sales	1,974,750	278,448	–	2,253,198
Inter-segment sales *(Note)*	–	8,659	(8,659)	–
Total	1,974,750	287,107	(8,659)	2,253,198
RESULT				
Segment result	315,666	71,451		387,117
Unallocated other income				52,903
Unallocated corporate expenses				(309,068)
Share of profit of jointly controlled entities	1,176	–		1,176
Increase in fair value of investment properties				4,000
Loss on disposal of property, plant and equipment and prepaid lease payments	(558)	(237)		(795)
Impairment loss recognised in respect of property, plant and equipment				(1,000)
Finance costs				(30,159)
Profit before taxation				104,174
Income tax expense				(19,030)
Profit for the year				85,144

Note: Inter-segment sales are charged at agreed terms set out in the subcontracting agreement entered into between group companies.

6. 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	1,263,060	200,762	1,463,822
Investment in jointly controlled entities	16,459	–	16,459
Unallocated corporate assets			307,391
Consolidated total assets			1,787,672
LIABILITIES			
Segment liabilities	405,377	64,406	469,783
Unallocated corporate liabilities			522,982
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 trademarks	–	10,000	10,000
Additions to goodwill	–	1,800	1,800
Depreciation of property, plant and equipment	47,121	12,530	59,651
Gain on derivative hedging instruments transferred from equity	(8,538)	–	(8,538)
Amortisation of trademarks	687	500	1,187
Allowance for (write back) bad and doubtful debts	4,002	(152)	3,850
Allowance for inventory obsolescence	5,418	1,249	6,667

6. 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	
	2007	2006
	HK$'000	HK$'000
USA	**1,570,294**	1,364,138
Europe	**422,815**	392,703
Greater China	**522,052**	453,264
Others	**69,282**	43,093
	2,584,443	2,253,198

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

	Carrying amount of segment assets		Additions to property, plant and equipment, intangible assets and goodwill	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
USA	**135,252**	172,409	**216**	6,105
Europe	**20,024**	16,348	**339**	3,150
Greater China	**3,152,947**	1,491,262	**316,199**	168,470
Others	**3,053**	2,929	**18,289**	7,020
	3,311,276	1,682,948	**335,043**	184,745

7. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Bank loans and overdrafts		
wholly repayable within five years	**23,595**	22,092
Finance leases	**41**	37
Factoring expenses	**2,128**	3,239
Bank charges	**6,404**	4,791
	32,168	30,159

8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of nine (2006: eight) directors were as follows:

		Other emoluments			
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Performance related incentive payments	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Lam Foo Wah	80	5,058	12	4,610	9,760
Hui Yip Wing	47	1,593	7	–	1,647
Wong Shing Loong, Raymond	26	1,153	4	–	1,183
So Siu Hang, Patricia	80	2,298	12	2,820	5,210
Chan Wah Tip, Michael	120	–	–	–	120
Woo King Wai	120	–	–	–	120
Wong Shiu Hoi, Peter	240	–	–	–	240
Leung Hok Lim	221	–	–	–	221
Yeung Kwok Wing	120	–	–	–	120
Total for 2007	**1,054**	**10,102**	**35**	**7,430**	**18,621**

8. DIRECTORS' EMOLUMENTS *(Cont'd)*

	Fees	Other emoluments			Total emoluments
		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	2,600	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

Mr. Wong Shing Loong, Raymond and Mr. Hui Yip Wing resigned as directors on 30 April 2007 and 1 August 2007 respectively. Professor Yeung Kwok Wing was appointed as director on 1 March 2007.

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.

9. EMPLOYEE'S EMOLUMENTS

For the year ended 31 December 2007, of the five individuals with the highest emoluments in the Group, three (2006: four) were directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining two (2006: one) individuals were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**2,891**	1,790
Contributions to retirement benefits scheme	**24**	12
Performance related incentive payments	**1,175**	200
	4,090	2,002

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	1
	2	1

10. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000
Current tax charge:		
Hong Kong	**4,276**	51
Other jurisdictions	**45,716**	20,035
Under(over)provision in prior years:		
Hong Kong	**32,455**	(48)
Other jurisdictions	**(1,668)**	(410)
	80,779	19,628
Deferred taxation *(note 31)*	**77,078**	(598)
Attributable to a change in tax rate *(note 31)*	**(542)**	–
	157,315	19,030

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

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 estimated additional assessments to these group companies for the years of assessment 1999/2000, 2000/01 and 2001/02. During the course of the audit, there may be a possibility that estimated additional assessments for subsequent years be issued by the IRD to these group companies.

At 31 December 2007, the Group has purchased tax reserve certificates of approximately HK$32,382,000 (2006: HK$15,582,000) for conditional standover order of objection against the notices of estimated additional assessment for the years of assessment 1999/2000 and 2000/2001 and the amount is included in tax recoverable. Notices of estimated additional assessments for the year of assessment 2001/02 has just been issued and the objection against the notices 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.

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. 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.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", certain subsidiaries of the Group are subjected to income tax at tax rate of 26.4%. The PRC subsidiaries are subject to the PRC enterprise income tax rate with a ranging from 13.2% to 33% (2006: 13.2% to 33%). PRC enterprise income tax is calculated in accordance with the income tax law in the PRC for both years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008. For certain subsidiaries of the Company, the tax rate will change from 26.4% to 25% progressively. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

10. 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:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**712,692**	104,174
Tax at the income tax rate of 17.5%	**124,721**	18,230
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,173**	(213)
Effect of tax exemptions granted to PRC subsidiaries	**(1,520)**	(799)
Tax effect of share of results of jointly controlled entities	**28**	(206)
Tax effect of income not taxable for tax purpose	**(49,947)**	(3,003)
Tax effect of expenses not deductible for tax purpose	**58,808**	9,450
Tax effect of tax losses not recognised	**2,358**	4,006
Utilisation of tax losses previously not recognised	**(8,524)**	(7,977)
Under(over)provision in prior years	**30,787**	(458)
Effect on deferred taxation resulting from a change in tax rate	**(542)**	–
Others	**(27)**	–
Taxation for the year	**157,315**	19,030

11. PROFIT FOR THE YEAR

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

	2007	2006
	HK$'000	HK$'000
Cost of inventories recognised as expenses	**1,837,411**	1,563,169
Depreciation and amortisation		
Owned assets	**54,024**	59,545
Leased assets	**293**	106
Amortisation of trademarks (included in selling and distribution expenses)	**1,687**	1,187
Amortisation of prepaid lease payments	**2,746**	2,206
	58,750	63,044
Allowance for bad and doubtful debts (included in administrative expenses)	**7,933**	3,850
Allowance for inventory obsolescence (included in cost of sales)	**15,929**	6,667
Auditor's remuneration	**4,400**	4,311
Minimum lease payments in respect of equipment	**545**	148
Minimum lease payments in respect of land and buildings	**107,078**	83,399
Staff costs (including directors' emoluments – note 8)		
Wages, salaries and bonuses	**319,336**	310,912
Retirement benefits contributions	**14,163**	15,630
Less: Forfeited contributions	**(81)**	(408)
	14,082	15,222
	333,418	326,134
Net foreign exchange losses	**6,601**	4,284
Temporary textile quota expenses	**2,855**	4,599
Gain on derivative hedging instruments transferred from equity (included in revenue)	**(29,662)**	(8,538)
Gross rental income from investment properties	**(10,334)**	(8,364)
Less: Outgoings for investment properties rented out	**1,213**	1,291
Net rental income	**(9,121)**	(7,073)
Sub-letting rental income (included in selling and distribution expenses)	**(4,006)**	(4,006)
Investment income earned on loans and receivables – bank interest income	**(5,585)**	(4,428)

11. PROFIT FOR THE YEAR *(Cont'd)*

Included in gain on disposal of property, plant and equipment and prepaid lease payments of HK$359,769,000 (2006: loss on disposal of property, plant and equipment and prepaid lease payments of HK$795,000) was an amount of HK$361,000,000 (2006: nil) attributable to the gain on disposal of land located at Liuxia Street, Hangzhou, in an auction arranged by Hangzhou Municipal Government.

During the year ended 31 December 2007, the Group disposed of partial equity interests in Theme International Holdings Limited ("Theme") in several batches through the Stock Exchange and recognised a gain on partial disposal of shares in a subsidiary of HK$279,392,000.

12. DIVIDENDS

	2007	2006
	HK$'000	HK$'000
Dividends recognised as distribution during the year:		
Additional final dividend arising from shares issued under share option scheme	**71**	50
Interim dividend – HK5 cents per ordinary share (2006: HK3 cents)	**16,573**	10,028
Special interim dividend – HK10 cents per ordinary share (2006: nil)	**33,147**	–
2006 final dividend – HK7 cents	**23,319**	–
2005 final dividend – HK5 cents	**–**	16,658
	73,110	26,736
Proposed final dividend – HK5 cents per ordinary share (2006: HK7 cents)	**16,441**	23,319
Proposed special final dividend – HK10 cents per ordinary share (2006: nil)	**32,882**	–

The final dividend of HK5 cents (2006: HK7 cents) and a special dividend of HK10 cents (2006: nil) per ordinary share has been proposed by the directors and is subject to the approval by the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2007 together with the comparative figures for 2006 are based on the following data:

	2007	2006
	HK$'000	HK$'000
Profit for the purpose of basic and diluted earnings per share attributable to equity holders of the Company	**566,616**	85,118
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	**332,372,541**	333,873,165
Effect of dilutive potential ordinary shares assuming exercise of share options	**273,713**	968,067
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**332,646,254**	334,841,232

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings (Hong Kong) HK$'000	Buildings (elsewhere) HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1 January 2006	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
Additions	–	4,808	243,434	1,034	39,287	22,873	1,599	313,035
Transfers	–	99,215	(116,293)	–	14,397	2,681	–	–
Transfer to investment properties	(1,742)	–	–	–	–	–	–	(1,742)
Disposals	–	(62,725)	–	(2,149)	(30,824)	(11,906)	(3,358)	(110,962)
Exchange realignment	–	20,729	10,811	844	19,401	4,140	1,047	56,972
At 31 December 2007	**18,158**	**320,918**	**216,053**	**22,736**	**339,120**	**126,767**	**29,911**	**1,073,663**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2006	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 consolidated 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
Provided for the year	376	9,816	–	4,061	22,638	13,987	3,439	54,317
Impairment loss recognised in the consolidated income statement	–	1,400	–	–	–	–	–	1,400
Eliminated on disposals	–	(18,364)	–	(542)	(24,418)	(9,657)	(3,155)	(56,136)
Transfer to investment properties	(540)	–	–	–	–	–	–	(540)
Exchange realignment	–	3,803	–	296	8,648	2,357	782	15,886
At 31 December 2007	**5,168**	**46,144**	**–**	**13,874**	**170,898**	**84,433**	**20,135**	**340,652**
CARRYING VALUES								
At 31 December 2007	**12,990**	**274,774**	**216,053**	**8,862**	**168,222**	**42,334**	**9,776**	**733,011**
At 31 December 2006	14,568	209,402	78,101	12,948	132,829	31,233	11,554	490,635

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

	2007 HK$'000	2006 HK$'000
Buildings in Hong Kong:		
Medium-term leases	**12,990**	14,568
Buildings outside Hong Kong:		
Long leases	**21,710**	17,291
Medium-term leases	**253,064**	192,111
	274,774	209,402
	287,764	223,970

The above items of property, plant and equipment other than construction in progress 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$1,085,000 (2006: HK$1,095,000) in respect of assets held under finance leases.

15. PREPAID LEASE PAYMENTS

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**5,383**	6,024
Medium-term leasehold land outside Hong Kong	**37,391**	42,624
Long leases land outside Hong Kong	**34,874**	29,959
	77,648	78,607
Analysed for reporting purposes as:		
Non-current asset	**76,207**	76,404
Current asset	**1,441**	2,203
	77,648	78,607

On 6 December, 2007, High Fashion (China) Co., Ltd, a indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party ("Vendor") to acquire a land use right in Xiao Shan, the PRC. Pursuant to the aforesaid sale and purchase agreement, a deposit of RMB15,970,000 (equivalent to approximately HK$17,172,000) was paid to the Vendor during the year.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2006	64,000
Increase in fair value recognised in the consolidated income statement	4,000
At 31 December 2006	68,000
Transfer from property, plant and equipment and prepaid lease payments	13,470
Increase in fair value recognised in the consolidated income statement	4,450
At 31 December 2007	**85,920**

The fair value of the Group's investment properties at 31 December 2007 have been arrived at 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.

17. GOODWILL

	HK$'000
COST	
Arising on acquisition of business and at 31 December 2006	1,800
Arising on conversion of convertible notes issued by Theme	15,272
Arising on acquisition of additional interests in Theme	6,736
At 31 December 2007	**23,808**

Pursuant to the terms and conditions of the convertible notes ("Convertible Notes") issued by Theme solely to Navigation Limited, a wholly owned subsidiary of the Company, the Convertible Notes were due to be mandatory converted into ordinary shares of Theme on 30 August 2005. Such mandatory conversion was automatically postponed until such time as Theme is satisfied that, at least 25% of its shares are held by the public as required under the Rules governing the Listing of Securities on the Stock Exchange.

During the year, the Group (i) disposed 1,666,724,000 ordinary shares of Theme (representing 23.87% of the total issued share capital of Theme), (ii) converted Convertible Notes issued by Theme and recognised goodwill of HK$15,272,000, and (iii) acquired 460,877,995 ordinary shares of Theme (representing 5.14% of the total issued share capital of Theme) which resulting a goodwill of HK$6,736,000. After the above transactions, the Group's interest in Theme is reduced from 75% to 56.27%.

At the balance sheet date, carrying amount of goodwill mainly represents goodwill in two cash generating units (CGUs), representing two identifiable retail business lines categorised by the management of the Company as "TIHL" and "CSLR" of HK$22,008,000 and HK$1,800,000 respectively. The basis of the recoverable amounts of TIHL and CSLR and their major underlying assumptions are summarised below:

TIHL:

The recoverable amount is determined based on value-in-use calculations. For the purpose of assessing impairment, these calculations use cash flow projections based on financial budgets approved by the management for coming year.

CSLR:

The recoverable amount is determined based on value-in-use calculations. For the purpose of assessing impairment, these calculations use cash flow projections based on financial budgets approved by the management covering a five-year period with growth rate used to extrapolate cash flow projections beyond the period covered by budgets for 5 years ranging from 0% to 2% per annum.

Key assumptions used in value-in-use calculations for the CGUs include: (i) gross margin ranging from 50% to 70% per annum; and (ii) discount rate of 12% per annum. Expected cash flow projections, which include budgeted sales, gross margin, raw material price inflation and other direct expenses have been determined based on past performance and the expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of CSLR and TIHL to exceed the recoverable amount of CSLR and TIHL respectively.

18. INTANGIBLE ASSETS

	Trademarks
	HK$'000
COST	
At 1 January 2006	6,917
Acquired on acquisition of business	10,000
Exchange realignment	(44)
At 31 December 2006	16,873
Exchange realignment	44
At 31 December 2007	**16,917**
ACCUMULATED AMORTISATION	
At 1 January 2006	2,940
Provided for the year	1,187
Exchange realignment	(19)
At 31 December 2006	4,108
Provided for the year	1,687
Exchange realignment	28
At 31 December 2007	**5,823**
CARRYING VALUES	
At 31 December 2007	**11,094**
At 31 December 2006	12,765

The trademarks are amortised over 10 years.

19. INVESTMENTS IN ASSOCIATES

	2007	2006
	HK$'000	HK$'000
Cost of investment in associates, unlisted	**2,000**	2,000
Share of post acquisition losses	**(2,000)**	(2,000)
	–	–

Details of the Group's associates at 31 December 2007 and 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
			2007	2006	
			%	%	
Sherman – Theme (China) Limited	Incorporated	Hong Kong	**21.1**	37.5	Investment holding
Shenyang Sherman – Theme Fashion Limited ("Shenyang Sherman")	Incorporated	PRC	**16.88** ***(Note)***	22.5	Inactive

Note: The Group holds 16.88% effective interests in Shenyang Sherman and controls 30% voting power at general meetings of Shenyang Sherman through its 56.27% interest in Theme.

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

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

	2007 **HK$'000**	2006 HK$'000
Total assets	**–**	–
Total liabilities	**(1,575)**	(1,572)
Net liabilities	**(1,575)**	(1,572)
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 associates. The amounts of unrecognised share of those associates, extracted from the relevant financial statements of associates, both for the year and cumulatively, are as follows:

	2007 **HK$'000**	2006 HK$'000
Unrecognised share of losses of associates for the year	**1**	1
Accumulated unrecognised share of losses of associates	**1,406**	1,405

20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2007 HK$'000	2006 HK$'000
Cost of unlisted investments in jointly controlled entity	**11,467**	9,467
Share of post-acquisition profits	**6,243**	6,404
Share of exchange reserve	**1,827**	588
	19,537	16,459

At 31 December 2007 and 2006, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of registration and operations	Percentage of Ownership interest 2007 %	Ownership interest 2006 %	Voting power 2007 %	Voting power 2006 %	Profit sharing 2007 %	Profit sharing 2006 %	Principal activities
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	**51**	51	**50**	50	**51**	51	Dyeing, printing and sandwashing of fabric
Suzhou High Fashion Garment Co., Ltd. ("Suzhou High Fashion")	Incorporated	PRC	**51**	51	**60** ***(Note i)***	60 *(Note i)*	**51**	51	Garment manufacturing
STTM Limited *(Note ii)*	Incorporated	Hong Kong	**28.4**	–	**50**	–	**28.4**	–	Retailing of garments
Flaming China Limited *(Note ii)*	Incorporated	Hong Kong	**28.4**	–	**50**	–	**28.4**	–	Retailing of garments

Notes:

(i) 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.

(ii) The Group holds 28.4% effective interests and controls 50% voting power at general meetings of respective entities through its 56.27% interest in Theme.

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

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

	2007 HK$'000	2006 HK$'000
Current assets	**27,069**	15,904
Non-current assets	**12,995**	10,470
Current liabilities	**20,527**	9,915
Group's share of net assets of jointly controlled entities	**19,537**	16,459
Income	**56,203**	43,288
Expenses	**56,364**	42,112
Group's share of results of jointly controlled entities for the year	**(161)**	1,176

21 AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007 HK$'000	2006 HK$'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

	2007 HK$'000	2006 HK$'000
Raw materials	**132,295**	155,780
Work in progress	**140,412**	127,351
Finished goods	**135,049**	123,279
	407,756	406,410

23. TRADE RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables	**417,766**	419,568
Less: Allowance for doubtful debts	**(89,335)**	(89,021)
	328,431	330,547

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 net of allowance for doubtful debts at the balance sheet date is as follows:

	2007 HK$'000	2006 HK$'000
Within 90 days	**310,871**	295,824
91 to 180 days	**12,109**	31,394
181 to 360 days	**4,491**	1,945
Over 360 days	**960**	1,384
	328,431	330,547

The Group has policy of allowance for bad and doubtful debts which is based on the evaluation of collectibility and age of accounts and on management's judgement including credit worthiness and past collection history of each customer.

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

The amount receivables with a carrying amount of HK$272,843,000 (2006: HK$278,436,000) which are neither past due nor impaired at the balance sheet date for which the Group believes that the amounts are considered recoverable.

At the balance sheet date, included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$55,588,000 (2006: HK$52,111,000) which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the Group believes that the amounts are considered recoverable.

23. TRADE RECEIVABLES *(Cont'd)*

Ageing of trade receivables which are past due but not impaired:

	2007 HK$'000	2006 HK$'000
Within 90 days	**38,028**	39,858
91 – 180 days	**12,109**	8,924
181 – 360 days	**4,491**	1,945
Over 360 days	**960**	1,384
Total	**55,588**	52,111

In determining the recoverability of the trade receivables, the Group considers any changes in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further provision required in excess of the allowance for bad and doubtful debts.

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	**89,021**	86,872
Exchange adjustment	**156**	(90)
Impairment losses recognised on receivables *(Note i)*	**10,543**	7,050
Amounts written off as uncollectible *(Note ii)*	**(7,775)**	(1,611)
Amounts recovered during the year	**(2,610)**	(3,200)
Balance at end of the year	**89,335**	89,021

Notes

(i): The impairment loss recognised on receivables are individually trade receivables that are past due at the reporting date and the Group believes that those amounts are unlikely to be recoverable based on past collection history and credit worthiness of each customer.

(ii): The amounts written off as uncollectible are individually impaired trade receivable which are in severe financial difficulties.

24. BILLS RECEIVABLE, BILLS PAYABLE, BANK BALANCES, OTHER RECEIVABLES AND OTHER PAYABLES

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

Bank deposits are short term highly liquid investments carrying interest with a range from 0.4% to 5.12% (2006: 1.75% to 5.12%) per annum which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

At 31 December 2006, included in other payables was 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 had been completed in 2007 and the amount was set off against removal expense or credited as other income for the year ended 31 December 2007.

Included in other receivables is an amount of approximately HK$54 million (2006: nil) which represents loan receivable of RMB 50 million to an independent party. The loan receivable is expected to be settled within 1 year and carries a fixed interest rate at 6.2% per annum.

25. AMOUNTS DUE FROM AND TO JOINTLY CONTROLLED ENTITIES AND AN ASSOCIATE

The amount due to an associate is unsecured, interest-free and is repayable on demand.

At 31 December 2007, amounts due from jointly controlled entities are unsecured, interest free and are expected to be recovered in the next twelve months.

At 31 December 2006, the amounts due to jointly controlled entities were unsecured, interest-free and were repayable on demand.

26. DERIVATIVE HEDGING INSTRUMENTS

	2007 HK$'000	2006 HK$'000
Financial assets		
Cash flow hedges – Foreign currency forward contracts	**317,254**	6,513
Financial liabilities		
Cash flow hedges – Interest rate swaps	**1,400**	–

Foreign currency forward contracts:

The aggregate notional amount of the outstanding forward contracts at 31 December 2007 was HK$3,541 million (2006: HK$865 million) of selling HK$ for RMB at exchange rates ranging from RMB0.9272 to RMB0.9813 (2006: RMB0.9893 to RMB1.0015) with maturity periods up to 36 months (2006: up to 12 months) from the dates of entering into the respective contracts.

They are designated as highly effective hedging instruments in order to manage the foreign currency exposure in relation to foreign currency forecast intragroup sales which are expected to affect the consolidated profit or loss based on occurrence of the monthly forecast intragroup sales. The hedges are designated by certain PRC subsidiaries (of which the functional currency in RMB) to hedge highly probable forecast sales to certain HK subsidiaries (of which the functional currency is HK$) which are denominated in HK$.

As at 31 December 2007, a fair value gain of approximately HK$317,254,000 (2006: HK$6,513,000) has been deferred in equity and is expected to be released to the consolidated income statement at various dates in 2008 to 2010 (2006: 2007), the period in which the forecast sales are realised.

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

Interest rate swaps:

The Group uses interest rate swaps to manage its exposure to interest rate changes of certain amounts of its floating rate bank borrowings. The interest rate swaps match the major terms of the hedged underlying bank borrowings such that the management considers that the interest rate swaps are highly effective hedging instruments.

26. DERIVATIVE HEDGING INSTRUMENTS *(Cont'd)*

The maturity periods of interest rate swaps at notional amount as at 31 December 2007 were as follows:

	2007	2006
	HK$'000	HK$'000
More than one year, but not exceeding two years	**300,000**	–

As at 31 December 2007, the floating-to-fixed interest swaps locked in the interest rates ranging from 2.9% to 4.1% (2006: nil) per annum.

As at 31 December 2007, fair value losses of HK$1,400,000 (2006: nil) from the interest rate swaps under cash flow hedges have been deferred in equity and are expected to be released to the consolidated income statement at various dates during the lives of the swaps when the hedged interest payable occur.

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the valuation carried out by financial institutions, which is measured using the difference between the market forward rates at the balance sheet date for remaining duration of the outstanding contracts and their contracted forward rates.

27. TRADE PAYABLES

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

	2007	2006
	HK$'000	HK$'000
Trade payables:		
Within 90 days	**172,309**	171,589
91 to 180 days	**5,880**	6,575
181 to 360 days	**12,341**	6,559
Over 360 days	**12,997**	13,425
	203,527	198,148
Accrued purchases	**92,550**	51,565
	296,077	249,713

The Group's trade payables denominated in RMB and incurred by subsidiaries, the functional currencies of which are other than RMB amounted to approximately HK$60,066,000 (2006: HK$60,813,000).

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**369**	439	**337**	406
In the second year	**126**	237	**118**	220
In the third to fifth year inclusive	**127**	–	**113**	–
	622	676	**568**	626
Less: Future finance charges	**(54)**	(50)	**–**	–
Present value of lease obligations	**568**	626	**568**	626
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(337)**	(406)
Amount due for settlement after 12 months (shown under non-current liabilities)			**231**	220

The Group leases certain of its motor vehicles under finance lease. The range of the lease term is from one to three years. For the year ended 31 December 2007, the average effective borrowing rate was 9.5% (2006: 8%) per annum. 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.

The Group's obligation under finance leases are secured by the lessor's charge over the leased assets.

29. BANK BORROWINGS

	2007 HK$'000	2006 HK$'000
Trust receipt loans	**3,848**	1,931
Bank loans	**853,319**	458,383
	857,167	460,314
Analysed as:		
Secured	**35,309**	40,348
Unsecured	**821,858**	419,966
	857,167	460,314
Carrying amount repayable:		
On demand or within one year	**374,167**	400,814
More than one year, but not exceeding two years	**389,000**	23,000
More than two years, but not exceeding five years	**94,000**	36,500
	857,167	460,314
Less: Amounts due within one year shown under current liabilities	**(374,167)**	(400,814)
Amounts due after one year shown under non-current liabilities	**483,000**	59,500

The Group's borrowings and bank overdrafts are variable-rate borrowings which carry interest at 4.56% to 7.80% (2006: 4.80% to 8.25%) per annum.

The Group's borrowings that are denominated in United States Dollars ("USD") and RMB other than the functional currencies of the group entities amounting to approximately HK$390,390,000 (2006: HK$62,149,000).

At 31 December 2007, certain bank loans were secured by bills receivable of HK$10,803,000 (2006: HK$11,774,000) and trade receivables of HK$61,661,000 (2006: HK$90,581,000).

30. DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group entered into contracts of non deliverable currency swap and have been designated at financial liabilities at FVTPL on initial recognition.

Major terms of the currency swaps contracts are set out below:

Cross currency swap	**Maturity**
Exchange US$13,000,000 for RMB96,905,000	30 April 2009
Exchange US$20,000,000 for RMB148,436,000	23 November 2009
Exchange US$16,000,000 for RMB118,857,600	16 November 2009

As at 31 December 2007, a fair value loss of approximately HK$17,506,000 (2006: nil) has been charged to the consolidated income statement.

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the valuation carried out by financial institutions, which is measured using the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

31. DEFERRED TAXATION

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

	Deferred tax assets						Deferred tax liabilities						
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance on obsolete inventories	Unrealised exchange losses	Tax losses	Total	Accelerated tax depreciation	Revaluation of investment properties	Revaluation of property and prepaid lease payments transfer to investment property	Unsettled sales proceed from disposal of property, plant and equipment and prepaid lease payments	Trademarks	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	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 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 and 1 January 2007	(622)	(89)	(759)	(638)	(1,800)	(3,908)	1,282	5,432	–	–	1,800	46	8,560
Charge (credit) to income statement for the year	217	(352)	(695)	119	(1,156)	(1,867)	–	778	–	78,061	–	106	78,945
Charge to property revaluation reserve	–	–	–	–	–	–	–	–	2,059	–	–	–	2,059
Exchange realignment	–	(31)	(2)	3	–	(30)	–	–	–	–	–	–	–
Effect of change in tax rate	–	(312)	(230)	–	–	(542)	–	–	–	–	–	–	–
At 31 December 2007	**(405)**	**(784)**	**(1,686)**	**(516)**	**(2,956)**	**(6,347)**	**1,282**	**6,210**	**2,059**	**78,061**	**1,800**	**152**	**89,564**

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 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 consolidated 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$824,884,000 (2006: HK$819,463,000) and tax losses arising in overseas of HK$168,452,000 (2006: HK$209,109,000) 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.

32. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2006	2,024
Amount utilised during the year	(709)
At 31 December 2006	1,315
Amount utilised during the year	(386)
At 31 December 2007	**929**

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.

33. SHARE CAPITAL

	Number of shares '000	**Amount** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006, 1 January 2007 and 31 December 2007	1,000,000	100,000
Issued and fully paid:		
At 1 January 2006	333,152	33,315
Exercise of share options *(Note (i))*	1,120	112
Share repurchased and cancelled *(Note (ii))*	(110)	(11)
At 31 December 2006 and 1 January 2007	334,162	33,416
Exercise of share options *(Note (i))*	1,020	102
Shares repurchased and cancelled *(Note (ii))*	(6,366)	(637)
At 31 December 2007	**328,816**	**32,881**

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

33. SHARE CAPITAL *(Cont'd)*

Notes:

(i) On 26 April 2007 and 16 May 2007, an aggregate of 1,020,000 share options are exercised at the subscription price of HK$0.505 per share, resulting in the issue of 1,020,000 shares of HK$0.10 each for a total cash consideration of approximately HK$515,000.

On 2 May 2006, 8 May 2006, 21 June 2006 and 28 June 2006, an aggregate of 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) The Company repurchased its own shares through the Stock Exchange as follows:

Year ended 31 December 2007

Month of repurchase	**No. of ordinary shares of HK$0.10 each**	**Price per share**		**Aggregate consideration paid**
		Highest	**Lowest**	
	'000	**HK$**	**HK$**	**HK$'000**
January 2007	**580**	**1.50**	**1.45**	**870**
February 2007	**78**	**1.60**	**1.46**	**120**
March 2007	**380**	**1.70**	**1.62**	**628**
June 2007	**198**	**3.55**	**3.40**	**676**
July 2007	**1,898**	**3.65**	**3.45**	**6,719**
August 2007	**578**	**3.75**	**3.63**	**2,132**
September 2007	**260**	**3.49**	**3.34**	**890**
October 2007	**2,134**	**3.42**	**3.10**	**7,166**
November 2007	**260**	**3.08**	**2.90**	**781**
	6,366			**19,982**

Year ended 31 December 2006

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share		Aggregate consideration paid
		Highest	Lowest	
	'000	HK$	HK$	HK$'000
November 2006	72	1.45	1.45	104
December 2006	38	1.45	1.45	55
	110			159

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.

34. 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.

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

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

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

The following table discloses movements of the Company's share options for both years:

Name or category of participant	Date of grant	Exercise price HK$	Number of share options At 1 January 2006	Exercised during the year	At 31 December 2006 and 1 January 2007	Exercised during the year	At 31 December 2007
Directors							
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)	–	–	–
Other employees	5 May 1999	0.505	420,000	(120,000)	300,000	(300,000)	–
			2,140,000	(1,120,000)	1,020,000	(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) The weighted average closing price of the Company's share immediately before and on the dates of which the options were exercised was HK$2.88 (2006: HK$1.58).

(B) Share option scheme of 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 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 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.

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

(B) Share option scheme of Theme *(Cont'd)*

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.

35. 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$378,000 (2006: HK$464,000).

During the year, the Group disposed of property, plant and equipment and prepaid lease payments with sales proceeds of approximately HK$430 million (2006: nil) in which an amount of HK$353 million (2006: nil) was not yet received at the balance sheet date and included in other receivables.

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to members through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 29 (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, the share buy-backs, the issue of new shares as well as the issue of new debt or the redemption of existing debt.

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Derivative hedging instruments	**317,254**	6,513
Loans and receivables (including cash and cash equivalents)	**1,539,609**	666,055
Available-for-sale financial assets	**675**	675
Financial liabilities		
Derivative hedging instruments	**1,400**	–
Derivative financial instruments	**17,506**	–
Amortised cost	**1,266,026**	840,808

Financial risk management objectives and polices

The Group's financial instruments include trade and bills receivable, deposits and other receivables, derivative hedging instruments, derivative financial instruments, amounts due from jointly controlled entities, pledged bank deposits, bank balances and cash, trade and bills payable, other payables, amount due to an associate, obligations under finance leases, bank overdrafts and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

37. FINANCIAL INSTRUMENTS *(Cont'd)*

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 is mainly exposed to the USD.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**390,390**	62,149	**218,388**	244,916

The Group requires all its group entities to use foreign exchange forward contracts to eliminate the currency exposures. On this basis, the Group has entered into forward contracts to hedge for the currency exposure on the forecast sales as set out in note 26. 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.

Sensitivity analysis

5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD denominated monetary items and forward contracts designated as cash flow hedges, and adjust their translation at the year end. A positive number below indicates an increase in profit and hedging reserve where RMB strengthen 5% against USD for net liability position, and vice versa. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit and hedging reserve.

	USD	
	2007	2006
	HK$'000	HK$'000
Profit or loss *(i)*	**8,600**	(9,138)
Hedging reserve *(ii)*	**15,850**	326

(i) This is mainly attributable to the exposure outstanding on USD receivables and payables, which are not subject to cash flow hedges at year end.

(ii) This is a result of changes in fair value of derivative instruments designated as cash flow hedges in relation to the Group's foreign currency forecast sales.

37. FINANCIAL INSTRUMENTS *(Cont'd)*

Market risk *(Cont'd)*

Sensitivity analysis (Cont'd)

In addition, the Group is exposed to currency risk attributable to the derivative financial instruments designated as FVTPL (details as disclosed in note 30). 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding derivative financial instruments designated as FVTPL, and adjusts their translation at the year end for a 5% change in RMB against USD. Where RMB strengthen 5% against USD, the profit for the year would be decreased by HK$19,110,000 (2006: nil), and vice versa.

Interest rate risk

Cash flow interest rate risk

The Group's cash flow interest rate risk relates to the bank balances as well as variable-rate bank borrowings (see Notes 24 and 29 for details). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") or London Interbank Offered Rate ("LIBOR") plus a spread arising from the Group's HK$, RMB and USD borrowings.

The Group manages its interest rate exposure based on the interest rate level as well as potential impact on the Group's financial position arising from volatility of the interest rate.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. For bank balances, the analysis is prepared assuming the amount of asset outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$844,000 (2006: decrease/increase by approximately HK$1,206,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances as well as variable-rate bank borrowings.

37. FINANCIAL INSTRUMENTS *(Cont'd)*

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties 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.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers, spread across geographical areas.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised banking facilities of approximately HK$1,176 million (2006: HK$957 million).

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative financial instruments settled on a net basis, undiscounted net cash (inflows) outflows are presented.

37. FINANCIAL INSTRUMENTS *(Cont'd)*

Liquidity risk *(Cont'd)*

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007						
Non-derivative financial liabilities						
Trade and bills payables		300,226	319	–	300,545	300,545
Other payables		105,360	1,758	–	107,118	107,118
Amount due to an associate		597	–	–	597	597
Bank overdrafts		599	–	–	599	599
Bank borrowings	5.57	111,342	282,795	524,658	918,795	857,167
Obligation under finance lease	9.50	92	277	253	622	568
		518,216	285,149	524,911	1,328,276	1,266,594
Derivative – net settlement						
Derivative financial instruments		–	–	17,506	17,506	17,506
Derivative hedging instruments		–	–	1,400	1,400	1,400

	Weighted average effective interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006						
Non-derivative financial liabilities						
Trade and bills payables		253,739	–	–	253,739	253,739
Other payables		105,038	10,832	–	115,870	115,870
Amounts due to jointly controlled entities		9,234	–	–	9,234	9,234
Amount due to an associate		600	–	–	600	600
Bank overdrafts		1,051	–	–	1,051	1,051
Bank borrowings	5.98	103,503	315,832	68,475	487,810	460,314
Obligation under finance lease	8.00	110	329	237	676	626
		473,275	326,993	68,712	868,980	841,434

37. FINANCIAL INSTRUMENTS *(Cont'd)*

Fair value

The fair values of financial assets and financial liabilities (including derivative hedging and financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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.

38. PLEDGE OF ASSETS

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

	2007	2006
	HK$'000	HK$'000
Trade receivables	**61,661**	90,581
Bills receivable	**10,803**	11,774
Bank deposits *(Note)*	**108**	100
	72,572	102,455

Note: At the balance sheet date, the Group has also pledged bank deposit amounted RMB100,000 (2006: RMB100,000) (equivalent to approximately HK$108,000 (2006: HK$100,000)) to fulfil the requirement of Beijing Olympic Organizing Committee for producing and selling 2008 Beijing Olympic products.

39. 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:

	2007	2006
	HK$'000	HK$'000
Within one year	**5,729**	10,953
In the second to fifth years, inclusive	**6,393**	7,237
Over five years	**2,265**	2,246
	14,387	20,436

39. 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:

	2007 HK$'000	2006 HK$'000
Land and buildings:		
Within one year	**32,198**	38,699
In the second to fifth years, inclusive	**36,538**	44,357
Over five years	**17,717**	8,024
	86,453	91,080
Equipment:		
Within one year	**–**	24
In the second to fifth years, inclusive	**–**	82
	–	106
	86,453	91,186

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.

40. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the consolidated financial statements	**78,721**	41,662
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**833**	–

41. 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 and Taiwan subsidiaries are required to make contributions to the state retirement schemes in the PRC and Taiwan 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 and Taiwan government is responsible for the pension liability to these retired staff.

42. RELATED PARTY TRANSACTIONS

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

	2007	2006
	HK$'000	HK$'000
Purchases of raw materials and finished goods from jointly controlled entities	**70,198**	51,659
Sales of raw materials and finished goods to jointly controlled entities	**2,299**	2,323
Processing fee charge from jointly controlled entity	**–**	274
Professional fees paid to Wilkinson & Grist *(Note i)*	**979**	445
Training fee paid to Clothing Industry Training Authority *(Note ii)*	**1,700**	–
Brokerage commission paid to Taifook Securities Co., Limited *(Note iii)*	**864**	–

Notes:

(i) Mr. Chan Wah Tip, Michael, director of the Company, is a partner of Wilkinson & Grist.

(ii) Professor Yeung Kwok Wing, director of the Company, is a director of Clothing Industry Training Authority.

(iii) Mr. Wong Shiu Hoi, Peter, director of the Company, is a director of Taifook Securities Co., Limited.

In addition to the above, the Group acquired additional interest in a subsidiary in PRC from a director of a subsidiary, Mr. Fei Jian Ming, at a consideration of RMB16 million (equivalent to HK$17 million). Details of the transaction are set out in note 43(ii).

Compensation of key management personnel

The emoluments of directors and key executive during the year are set out in notes 8 and 9, which is determined by the remuneration committee having regard to the performance of individuals and market trends.

43. ACQUISITION 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 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 and cash outflow arising on acquisition:			
Cash consideration paid			15,954

43. ACQUISITION 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 million (equivalent to approximately HK$14 million). 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.

During the year ended 31 December 2007, the Group acquired remaining 27% equity interest in 杭州西湖春雷絲綢有限公司 for a consideration of approximately RMB16 million (equivalent to approximately HK$17 million).

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries 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 2007 %	2006 %	Principal activities
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary	**56.27**	75	Holding of trademarks
		HK$2 Non-voting deferred	**56.27**	75	
August Silk Inc.	USA	US$10	**100**	100	Marketing and garment trading
Anway Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Bramead International Inc.	British Virgin Islands ("BVI")/ USA	US$1	**100**	100	Holding of trademarks
Cantabian Limited	Hong Kong	HK$2 Ordinary	**100**	100	Investment holding
		HK$2 Non-voting deferred	**100**	100	
Dongguan Daliesheng Fashion Co., Ltd. *(Note 1)*	PRC	HK$28,000,000	**100**	100	Garment manufacturing
Dongguan Sanyue Fashions Limited *(Note 2)*	PRC	HK$10,000,000	**51.77**	69	Garment manufacturing
Dongguan Yihao Fashions Limited *(Note 1)*	PRC	HK$20,500,000	**56.27**	–	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Guangdong Theme-Huayu Fashion Company Limited *(Note 1)*	PRC	RMB5,000,000	**56.27**	75	Garment retailing
Hangzhou High Fashion Knitwear Co., Ltd. *(Note 1)*	PRC	RMB23,660,000	**100**	100	Garment manufacturing

44. 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
			2007	2006	
			%	%	
Hangzhou Xiwu Chun Lui Silk Co., Ltd.	PRC	RMB14,000,000	**100**	73.45	Garment manufacturing
High Fashion Garments, Inc.	USA	US$5,000	**100**	100	Marketing and garment trading
High Fashion Apparel Limited	BVI/Hong Kong	US$1,000	**100**	100	Investment holding
High Fashion (China) Co., Ltd. *(Note 1)*	PRC	US$62,000,000	**100**	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion (BVI) Limited	BVI/PRC	US$1	**100**	100	Product sourcing and development
High Fashion (FG) Limited	BVI/PRC	US$1	**100**	100	Garment manufacturing
High Fashion (HZ) Limited	BVI/PRC	US$1	**100**	100	Garment manufacturing
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	**100** **100**	100 100	Garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	MOP100,000	**100**	100	Garment trading and agency
High Fashion Garments Management Limited	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	**100** **100**	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	**100**	100	Investment holding

44. 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
			2007	2006	
			%	%	
High Fashion Knit Company Limited	Hong Kong	HK$2	**100**	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary	**100**	100	Garment trading
		HK$10,000 Non-voting deferred	**100**	100	
High Fashion Silk (Zhejiang) Co., Ltd. *(Note 1)*	PRC	US$22,500,000	**100**	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	GBP20,000	**70.5**	70.5	Garment trading
Navigation Limited	BVI/ Hong Kong	US$1	**100**	100	Investment holding
Stage II Limited	Hong Kong	HK$800,000	**56.27**	75	Garment retailing
Taiwan Vision Company Limited	Taiwan	NT$80,000,000	**56.27**	75	Garment retailing
Theme Corporate Fashion (Asia) Limited	Hong Kong	HK$1	**56.27**	75	Garment trading
Theme Corporate Fashion (Europe) Limited	Hong Kong	HK$1	**56.27**	75	Garment trading
Theme Corporate Fashion (Overseas) Limited	Hong Kong	HK$1	**56.27**	75	Garment trading
Theme (Dongguan) Limited	BVI/PRC	US$1	**56.27**	75	Garment trading
Theme Garments (Shenzhen) Company Limited *(Note 1)*	PRC	RMB60,000,000	**56.27**	75	Garment retailing and trading
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	**56.27**	75	Garment retailing

44. 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
			2007	2006	
			%	%	
Theme Industry Hangzhou Company Limited *(Note 1)*	PRC	US$2,000,000	**56.27**	75	Garment retailing and trading
The King Garment Limited	Hong Kong	HK$2	**100**	100	Garment trading
Theme	Bermuda/ Hong Kong	HK$89,645,000	**56.27**	75	Investment holding
Theme International Limited	Hong Kong	HK$2 Ordinary	**56.27**	75	Garment trading
		HK$1,000,000 Non-voting deferred	**56.27**	75	
Winsmart Overseas Limited	Hong Kong	HK$2	**100**	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$196,730,000 as at 31 December 2007 (2006: HK$101,587,000).

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 the convertible notes issued by Theme to Navigation Limited, none of the subsidiaries had issued any debt securities at 31 December 2006. As the convertible notes have been mandatorily converted during the year, none of the subsidiaries had issued any debt securities at 31 December 2007.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified and adjusted as appropriate, is set out below:

RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,584,443**	2,253,198	2,108,497	1,964,018	1,917,911
Profit before taxation	**712,692**	104,174	76,614	51,309	35,264
Taxation	**(157,315)**	(19,030)	(9,181)	(5,461)	(1,998)
Profit for the year	**555,377**	85,144	67,433	45,848	33,266
Attributable to					
Equity holders of the Company	**566,616**	85,118	67,433	72,400	33,266
Minority interests	**(11,239)**	26	–	(26,552)	–
	555,377	85,144	67,433	45,848	33,266

ASSETS AND LIABILITIES

	At 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**3,311,276**	1,787,672	1,431,137	1,480,571	1,361,473
Total liabilities	**(1,562,245)**	(992,765)	(724,995)	(829,233)	(756,924)
	1,749,031	794,907	706,142	651,338	604,549

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah *(Chairman and Managing Director)*
Ms. So Siu Hang, Patricia

Non-executive Directors

Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing

Independent Non-executive Directors

Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter
Mr. Leung Hok Lim

QUALIFIED ACCOUNTANT

Mr. Lin Yuet Man, Edwin

COMPANY SECRETARY

Ms. Chan Wai Wei, Cynthia

AUDIT COMMITTEE

Mr. Leung Hok Lim *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Wong Shiu Hoi, Peter

REMUNERATION COMMITTEE

Mr. Wong Shiu Hoi, Peter *(Chairman)*
Mr. Chan Wah Tip, Michael
Professor Yeung Kwok Wing
Mr. Woo King Wai
Mr. Leung Hok Lim

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor
High Fashion Centre
1-11 Kwai Hei Street
Kwai Chung, New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Westbroke Limited
Clarendon House, Church Street
Hamilton HM11, Bermuda

SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

LEGAL ADVISERS TO THE COMPANY

Wilkinson & Grist
6th Floor, Prince's Building
10 Chater Road, Hong Kong

LEGAL ADVISERS ON BERMUDA LAW

Conyers Dill & Pearman
2901, One Exchange Square
8 Connaught Place, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35/F., One Pacific Place
88 Queensway Hong Kong

PRINCIPAL BANKERS

Bank of America, N.A., Hong Kong Branch
Bank of China (Hong Kong) Limited
Citibank N.A., Hong Kong Branch
CITIC Ka Wah Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
KBC Bank, Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

SHAREHOLDERS & INVESTOR RELATION INFORMATION

RESULTS ANNOUNCEMENT:–	
2007 Final	8 April 2008
2007 Interim	6 September 2007
2006 Final	11 April 2007
2006 Interim	13 September 2006
2008 ANNUAL GENERAL MEETING	13 June 2008
CLOSURE OF REGISTER OF MEMBERS	Period from 10 June 2008 to 13 June 2008
DIVIDENDS:–	
2007 Final and Special	15 HK cents per share payable on 25 June 2008
2007 Interim and Special	15 HK cents per share paid on 10 October 2007
2006 Final	7 HK cents per share paid on 15 June 2007
2006 Interim	3 HK cents per share paid on 11 October 2006
AUTHORISED SHARES	1,000,000,000 shares
ISSUED SHARES	328,815,550 shares (as at 31 December 2007)
BOARD LOT	2,000 shares
PAR VALUE	HK$0.1000
FINANCIAL YEAR END	December 31
STOCK CODE	608
COMPANY WEBSITE	www.highfashion.com.hk
LISTING DATE	4 August 1992