High Fashion International Limited

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

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

06
Annual Report

Mission Statement

To become one of the
World's
Recognized Leaders
in fashion apparel

Contents

Chairman's Statement

2006 marked a year of solid progress for the Group to further strengthen and enhance our corporate capability, leading us towards the stated goal. We adopted an aggressive approach in expanding the business to our expectation. August Silk, our US brand, had returned to profitability and is back on track for development, complementing the planned strategic moves for promoting private label business. It is expected that we will be better positioned in the development of our business in USA. With a number of significant expansion initiatives being effectively planned, managed and delivered, European business recorded a healthy growth of 32%, accounting for 17% of the Group's turnover in 2006. Such growth is expected to continue.

The Group's retail business had not been able to get breakeven, but in China market, we had achieved good progress and pathed the way for significant growth. In addition to Theme, the brand acquired during the year, recorded profit contribution. In March 2007, we entered into an agreement with Stefanel, an Italian brand, in relation to the establishment of a joint venture for exploring the Stefanel in China market. In addition, we reached an agreement to award the distribution rights of Mango in 14 China cities. In view of the dynamic economic development and vibrant market in China, we are confident that the existing strategic moves will bring about a bright future for the Group and prepare it for the competition ahead.

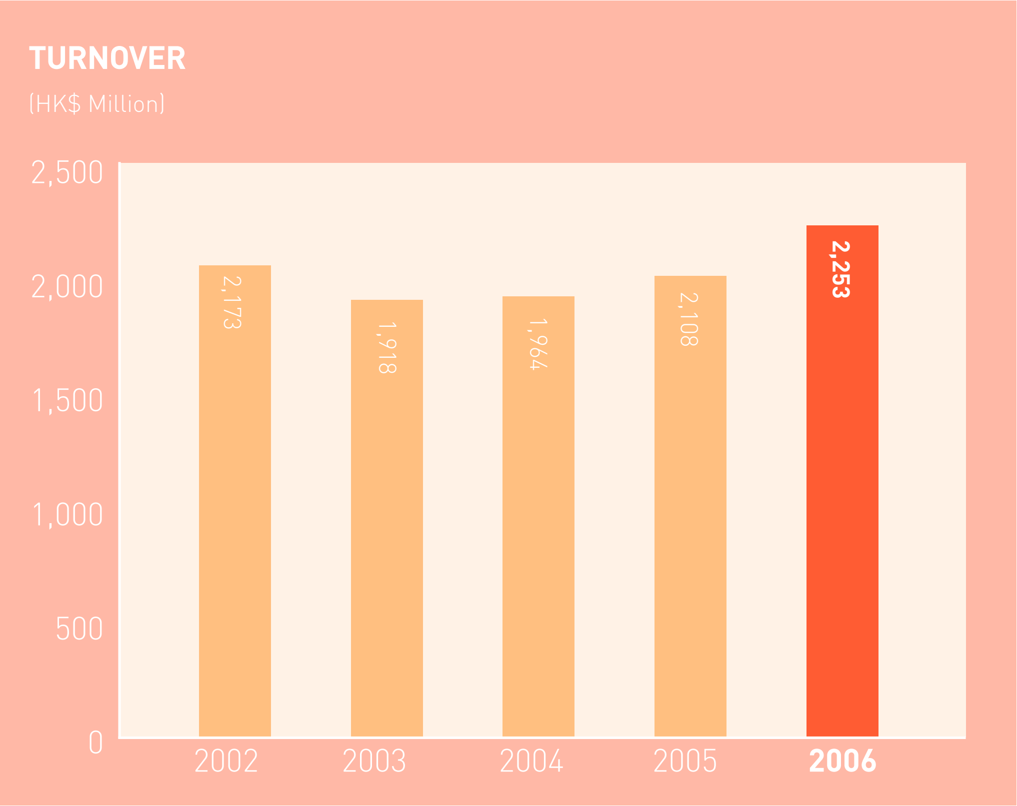
The Group's mission is to work its way up to the top player in the silk apparel industry, and become a world-class apparel enterprise. The construction of the Group's major facilities in Xiaoshan District, Hangzhou for establishing a first class production base of ladies silk apparel is in good progress as planned, so is our construction in Xinchang, Zhejiang Province. It is expected that they will commence production one after another by the end of this year. We consider that the integrated and comprehensive manufacturing facilities will form a more centralised, modernized platform which will significantly strengthen our competitiveness. Looking forward, we believe we are well prepared to capture any opportunities arise in the future.

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 the staff from various regions for their dedication and contribution in achieving the corporate goals.

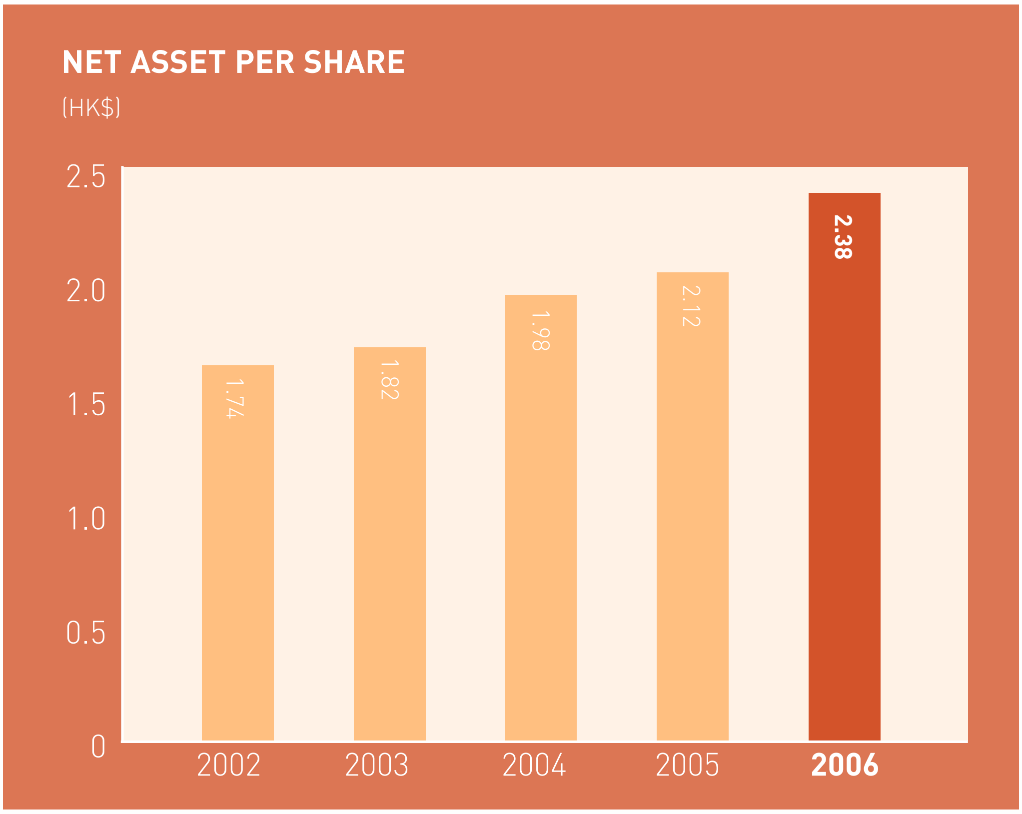
Lam Foo Wah
Chairman

Hong Kong, 11 April 2007

Financial Highlights



Financial Highlights



Management Discussion and Analysis

RESULTS

Revenue for the year ended 31 December 2006 increased by 7% to HK$2.25 billion. Net profit attributable to shareholders for the year ended 31 December 2006 was HK$85 million, compared with a reported profit of HK$67 million of last year. Basic earnings per share were 25.50 HK cents. Net asset value per share was HK$2.40.

REVIEW OF OPERATIONS

The segmental information is as follows:–

	Revenue		Contribution	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**1,974,750**	1,856,872	**133,336**	102,386
Retailing	**278,448**	251,625	**(179)**	(884)
	2,253,198	2,108,497	**133,157**	101,502
By geographical segments:				
USA	**1,364,138**	1,431,675	**100,808**	76,109
Europe	**392,703**	298,100	**2,352**	1,307
Greater China	**453,264**	348,875	**26,237**	20,988
Others	**43,093**	29,847	**3,760**	3,098
	2,253,198	2,108,497	**133,157**	101,502

The Group recorded growth in both revenue and operating profit of our core manufacturing and trading business when compared with last year.

Geographically, the United States continued to be the Group's major export market, accounting for 61% (2005: 68%) of revenue for the year of 2006. August Silk accounted for 35% of our revenue in the USA, comparable with last corresponding year. We have reorganized the management of August Silk, product line and enhanced the marketing strategy and the operation already contributed a return in 2006.

Management Discussion and Analysis

Sales to the European market increased to 17% (2005: 14%) of revenue for the year of 2006. 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$278 million, increasing by 11% when compared with the year of 2005. The increase was partly attributable to the acquisition of the brand of CSLR and the increase of Theme's PRC sales. The retailing business recorded a minimal net operating loss of HK$0.2 million for the year of 2006. The management of Theme is implementing cost control in relation to selling expenses; which being accomplished by the expansion of its franchise network could deliver a return to its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were increased to HK$461 million at the balance sheet date compared to HK$369 million as at 31 December 2005. The increase in bank borrowing was mainly due to the acquisition of a new property in Shenzhen of Theme and the construction of production complex in Hangzhou. Our gearing ratio of non-current liabilities to shareholders' funds was 9% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.2.

The Group's total cash and bank balances were HK$219 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 the operating needs.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. Foreign exchange risks on the recent revaluation of Renminbi is managed by the Group with the use of forward contracts to hedge against the exchange fluctuation. 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$102 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

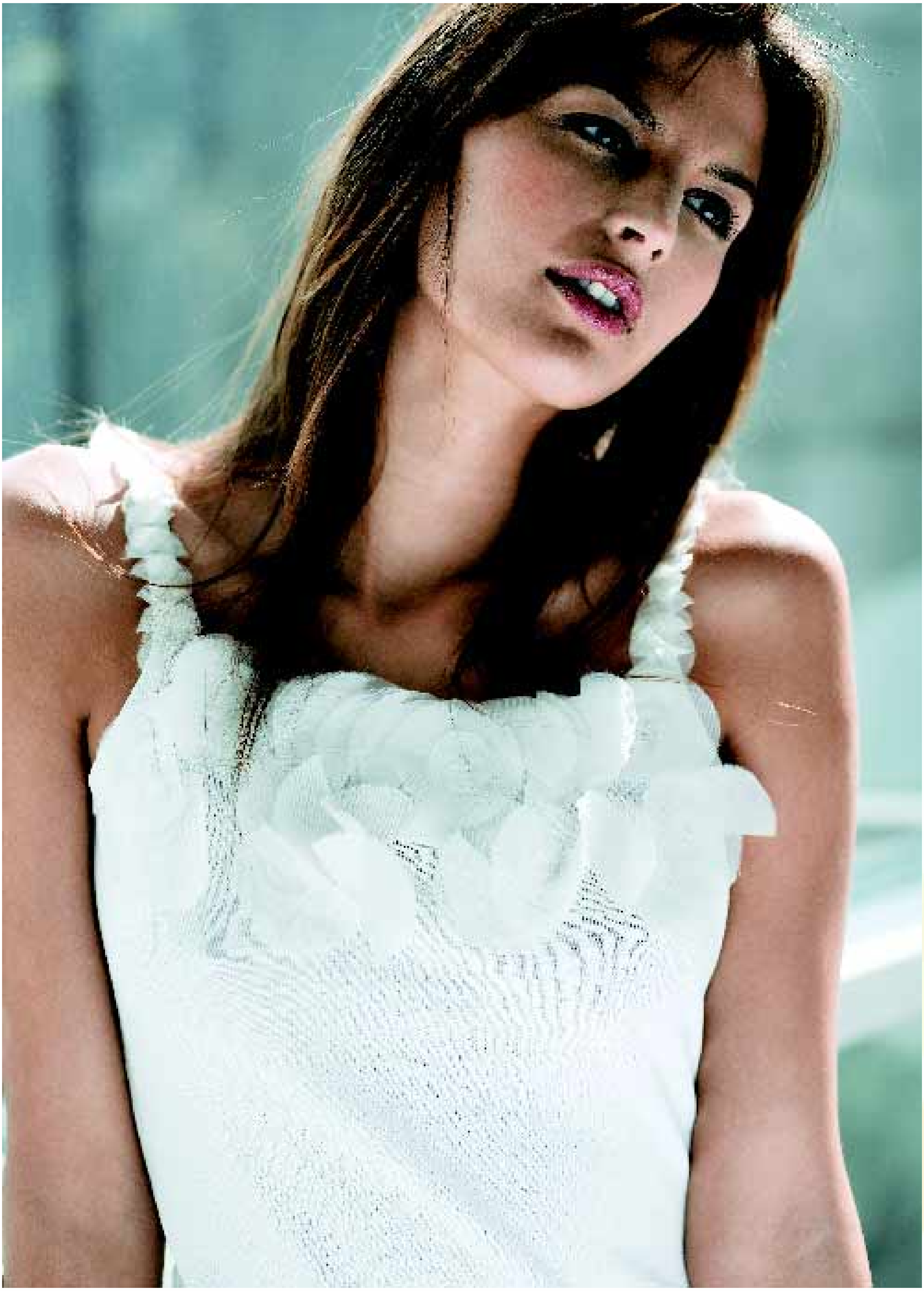
The total number of employees of the Group including jointly controlled entities as at the balance sheet date was about 12,200. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group entered into construction contracts to construct the production complex and living quarters at the Xiaoshan district in Hangzhou at a total consideration of HK$85.3 million in 2006.

Theme acquired two floors of Hanggang Fuchan Commercial Building of Futian district in Shenzhen as the headquarter at a total consideration of HK$46 million in July 2006.

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 58, 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.

Mr. HUI Yip Wing, aged 57, joined the Group in 1996. Mr. Hui is an Executive Director of the Company. He is the vice chairman and CEO of Theme International Holdings Limited. He possesses vast operational experience at senior management level, with special emphasis on strategic planning, financial control, re-engineering and total quality management.

Mr. WONG Shing Loong, Raymond, aged 57, joined the Group in 1997. Mr. Wong is an Executive Director of the Company and responsible for the Group's overall financial activities and human resources and administration. He is also an executive director of Theme International Holdings Limited. Mr. Wong is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he was an executive director of a Hong Kong listed company.

Ms. SO Siu Hang, Patricia, aged 48, 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 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 54, 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 over 20 years. Mr. Chan is a partner of Wilkinson & Grist, the legal adviser of the Company.

Professor YEUNG Kwok Wing, aged 59, 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 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 62, joined the Group in 1992. Mr. Woo is an Independent Non-Executive Director, a member of the Audit Committee and the 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 serves as an executive member of the Hainan Political Consultative Conference, the People's Republic of China.

Biographical Details of Directors and Senior Management

Mr. WONG Shiu Hoi, Peter, aged 66, 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 Ching Hing (Holdings) Limited and 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 72, 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 52, 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 34, joined the Group in 2000. She is the Company Secretary of the Company. She 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 and the Hong Kong Institute of Certified Public Accountants.

Ms. Ellen DAWSON-BRUCKENTHAL, aged 50, 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 55, 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.

Biographical Details of Directors and Senior Management

Mr. Daniele FURLAN, aged 50, joined the Group in 2004 as a consultant. He is primarily responsible for the sales and marketing of fabrics to European market and provides technical, organizational and industrial knowhow to the Group's factories. He holds a diploma in business administration and a master in psychology from Padova University. Previously, he worked as 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 60, 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 56, 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 attain 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 50, 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 20 years of experience in the sales and merchandising of garments in Hong Kong.

Mr. LIN Ping, aged 46, 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 46, 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.

Mr. RUAN Gen Yao, aged 46, 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.

Biographical Details of Directors and Senior Management

Mr. WANG Xiao, aged 46, joined the Group in 1996. He is currently the General Manager of Dongguan Dalisheng Fashion Co., Ltd. He has completed tertiary education and has over 15 years of experience in fashion management.

Mr. Nicholas E. G. WRIGHT, aged 52, 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 51, 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.

Mr. ZHANG Yue Quan, aged 36, joined the Group in 1994. He is currently the Deputy General Manager of High Fashion (China) Co., Ltd. He graduated from the Faculty of Administration of Beijing Fashion College and further attended a post-graduate program in MBA at the Zhejiang Industrial University. He has been responsible for the management of operations and production of knit or woven wear and dyeing departments in the Group and has extensive experience in systematic fashion management.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2006.

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 40 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 2006 and the state of affairs of the Group at that date are set out in the financial statements on pages 31 to 81.

An interim dividend of 3 HK cents per ordinary share was paid on 11 October 2006. The directors recommended the payment of a final dividend of 7 HK cents per ordinary share in respect of the year to shareholders on the register of members on 5 June 2007.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years/periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 82. 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 15 and 17 to the financial statements, respectively.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, is set out in note 31 to the financial statements.

SHARE OPTION INFORMATION

A summary of the share option scheme and details of the movement in share option of the Company during the year are set out in note 32 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.

Report of the Directors

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

During the year, the Company repurchased 110,000 (2005: Nil) ordinary shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares	Price per share		Total price paid
		Highest	Lowest	
		HK$	HK$	HK$
November 2006	72,000	1.45	1.45	104,400
December 2006	38,000	1.45	1.45	55,100
	110,000			159,500

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$148,500 (2005: Nil) 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 2006, 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$183,850,000, of which HK$23,319,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$296,041,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$815,000 (2005:HK$1,391,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 10%. 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
Wong Shing Loong, Raymond
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, Ms. So Siu Hang, Patricia, Mr. Chan Wah Tip, Michael and Mr. Woo King Wai will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 86(2) of the Company's Bye-laws, Professor Yeung Kwok Wing who was appointed a Non-Executive Director of the Company on 1 March 2007, will hold office until the forthcoming annual general meeting and, being eligible, offers himself for re-election.

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 2006, and the Company considered that they are independent.

DIRECTORS' EMOLUMENT

Details of the Directors' emoluments for year 2006 are set out in the Remuneration Committee of the Corporate Governance Report on page 26, and particulars as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 9 and 10 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 11 to 14 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

Mr. Chan Wah Tip, Michael, a director of the Company, was interested in contracts for the provision of legal advisory services to the Group. Further details of the transactions undertaken in connection therewith are included in note 37 to the financial statements. Save as disclosed above, 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.

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

As at 31 December 2006, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

(i) Long Positions in the Company's Shares and Underlying Shares

Name of Directors	*Note(s)*	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	Total	Percentage of the Company's issued capital *(Note 4)*
Lam Foo Wah	*1, 2*	Other Interest	Other	139,433,986	–	139,433,986	41.73%
Hui Yip Wing		Interest of spouse	Family	2,652,007	–	2,652,007	0.79%
Wong Shing Loong, Raymond		Beneficial owner	Personal	2,900,000	–	2,900,000	0.87%
So Siu Hang, Patricia	*3*	Beneficial owner	Personal	2,104,309	720,000	2,824,309	0.85%

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	*5*	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 104,516,419 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. Details of the interests of directors and chief executives of the Company in the underlying shares of equity derivatives are in respect of share options granted to her are stated in note 32 to the financial statements.

4. The issued share capital of the Company is 334,161,550 shares as at 31 December 2006.

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

Save as disclosed above, as at 31 December 2006, 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 2006 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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**
Hinton Company Limited	*1*	Beneficial owner	104,516,419	31.28%
Veer Palthe Voute NV ("VPV")	*2*	Investment manager	49,337,000	14.76%
Dresdner Bank Aktiengesellschaft ("DBAG")	*2*	Interest of controlled corporations	49,337,000	14.76%
Allianz Aktiengesellschaft ("AAG")	*2*	Interest of controlled corporations	49,337,000	14.76%
High Fashion Charitable Foundation Limited	*1*	Beneficial owner	34,917,567	10.45%
Excel Investments Ltd.		Beneficial owner	25,800,000	7.72%

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. 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.

Save as disclosed above, as at 31 December 2006, 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.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are disclosed in note 39 to the financial statements.

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 2006, 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 22 to 29.

AUDITORS

The financial statements for the year ended 31 December 2006 were audited by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu were appointed auditors of the Company on 24 May 2004 in place of Ernst & Young who acted as the auditors of the Company for the years before 2004 annual general meeting, retired and did not offer themselves for re-appointment at 2004 annual general meeting.

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

ON BEHALF OF THE BOARD

LAM FOO WAH
Chairman

Hong Kong, 11 April 2007

Corporate Governance Report

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 2006, except code provision on A.2.1 on the separate roles of the chairman and 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.

During the year, the Board of the Company consists of eight directors, comprising four executive directors, one non-executive director 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 are as follows:

Name of Director	**Position**
Executive directors:	
Mr. Lam Foo Wah	Chairman and Managing Director
Mr. Hui Yip Wing	Executive Director
Mr. Wong Shing Loong, Raymond	Executive Director
Ms. So Siu Hang, Patricia	Executive Director
Non-executive directors:	
Mr. Chan Wah Tip, Michael	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

One-third member in the Board is Independent Non-executive Directors 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 offer themselves for re-election at the first general meeting following their appointment.

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

The Board meets regularly, and held meetings 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 meeting record of attendance is set out on page 27 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 11 to 14.

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 in 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.

In order to ensure that the Board is able to fulfill its responsibilities, the Board has established and delegated specific responsibilities to the Audit Committee and Remuneration Committee. The details of the committees are stipulated on pages 25 to 26 of this report.

Corporate Governance Report

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

At least 14 days formal notice of every regular board meeting is given to all directors to give them the 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 Company Secretary and the Qualified Accountant shall attend all 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.

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

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.

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 2006.

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 are 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 page 30.

AUDITORS' REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu. For the year ended 31 December 2006, the Auditors of the Company received approximately HK$3.8 million for audit service and HK$2,056,000 for tax and consultancy services.

AUDIT COMMITTEE

During the financial year, the audit committee of the Company (the "Audit Committee") comprises one non-executive director namely, Mr. Chan Wah Tip, Michael 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. On 1 March 2007, Professor Yeung Kwok Wing was appointed as a Non-Executive Director, a member of Audit and Remuneration Committees of the Company. Accordingly, Professor Yeung attended Audit Committee meeting held in April 2007.

In April 2007, the Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2006.

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.

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.

Corporate Governance Report

AUDIT COMMITTEE *(Cont'd)*

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 meetings record of attendance is listed out on page 27.

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 set up the remuneration committee of the Company ("Remuneration Committee") on 22 August 2005. The Remuneration Committee comprises Mr. Wong Shiu Hoi, Peter (Chairman of the Remuneration Committee), Mr. Chan Wah Tip, Michael, Mr. Woo King Wai and Mr. Leung Hok Lim during the year. A regular meeting of Remuneration Committee has been convened in April 2006 and the meeting record of attendance is listed out on page 27.

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.

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 32 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	1/1
Mr. Hui Yip Wing	4/4	N/A	N/A
Mr. Wong Shing Loong, Raymond	3/4	N/A	N/A
Ms. So Siu Hang, Patricia	2/4	N/A	N/A
Non-executive director:			
Mr. Chan Wah Tip, Michael	4/4	1/2	1/1
Independent non-executive directors:			
Mr. Woo King Wai	3/4	2/2	1/1
Mr. Wong Shiu Hoi, Peter	4/4	2/2	1/1
Mr. Leung Hok Lim	3/4	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 2006 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 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.

Corporate Governance Report

INTERNAL CONTROL *(Cont'd)*

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 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.

The 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 Internal Audit Department, the internal audit reports functionally to the Audit Committee. The 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 Internal Audit Department conducts other special reviews as required. A summary of major audit findings is reported semi-annually and reviewed by the Audit Committee. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

INTERNAL CONTROL *(Cont'd)*

According to the 2006 Internal Audit report, 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 2006.

COMMUNICATION WITH SHAREHOLDERS

At 2006 Annual General Meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including the re-election of Directors and the Chairman of the Board as well as the chairman of the Audit and Remuneration Committees attended to answer questions of shareholders.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the bye-laws of the Company. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

The Company establishes different communication channels with shareholders and investors: (i) shareholders can receive printed copies of corporate information, (ii) the annual 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.

Independent Auditor's Report

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 31 to 81, which comprise the consolidated balance sheet as at 31 December 2006, 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 issued by the Hong Kong Institute of Certified Public Accountants 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 Hong Kong Institute of Certified Public Accountants. 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
11 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	6	**2,253,198**	2,108,497
Cost of sales		**(1,569,836)**	(1,506,305)
Gross profit		**683,362**	602,192
Other income		**52,903**	60,253
Selling and distribution expenses		**(296,245)**	(278,150)
Increase in fair value of investment properties		**4,000**	22,400
Administrative expenses		**(309,863)**	(304,446)
Impairment loss recognised in respect of property, plant and equipment	15	**(1,000)**	(747)
Finance costs	8	**(30,159)**	(26,041)
Share of profit of jointly controlled entities		**1,176**	1,153
Profit before taxation		**104,174**	76,614
Income tax expense	11	**(19,030)**	(9,181)
Profit for the year	12	**85,144**	67,433
Attributable to			
Equity holders of the Company		**85,118**	67,433
Minority interests		**26**	–
		85,144	67,433
Earnings per share	14		
Basic		**HK25.5 cents**	HK20.3 cents
Diluted		**HK25.4 cents**	HK20.1 cents

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**490,635**	371,327
Prepaid lease payments	*16*	**76,404**	44,957
Investment properties	*17*	**68,000**	64,000
Intangible assets	*18*	**14,565**	3,977
Interests in associates	*19*	**–**	–
Interests in jointly controlled entities	*20*	**16,459**	14,695
Available-for-sale investments	*21*	**675**	675
Deferred tax assets	*29*	**3,908**	2,537
		670,646	502,168
Current assets			
Inventories	*22*	**406,410**	333,051
Trade receivables	*23*	**330,547**	272,751
Bills receivable	*24*	**39,960**	45,161
Prepaid lease payments	*16*	**2,203**	1,327
Deposits, prepayments and other receivables	*24*	**96,585**	67,094
Tax recoverable		**15,582**	–
Derivative financial instruments	*25*	**6,513**	4,000
Pledged bank deposits	*34*	**100**	159
Bank balances and cash	*24*	**219,126**	205,426
		1,117,026	928,969
Current liabilities			
Trade payables	*26*	**249,713**	172,257
Bills payable	*24*	**4,026**	6,012
Other payables and accruals	*24*	**214,729**	131,405
Amounts due to jointly controlled entities	*20*	**9,234**	4,542
Amount due to an associate	*19*	**600**	602
Tax payable		**42,597**	32,904
Obligations under finance leases	*27*	**406**	222
Bank borrowings	*28*	**400,814**	304,330
Bank overdrafts	*28*	**1,051**	1,393
		923,170	653,667
Net current assets		**193,856**	275,302
Total assets less current liabilities		**864,502**	777,470

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Obligations under finance leases	*27*	**220**	290
Bank borrowings	*28*	**59,500**	63,000
Deferred tax liabilities	*29*	**8,560**	6,014
Provision for long service payments	*30*	**1,315**	2,024
		69,595	71,328
		794,907	706,142
Capital and reserves			
Share capital	*31*	**33,416**	33,315
Reserves		**755,472**	672,027
Equity attributable to equity holders of the Company		**788,888**	705,342
Minority interests		**6,019**	800
Total equity		**794,907**	706,142

The consolidated financial statements on pages 31 to 81 were approved and authorised for issue by the Board of Directors on 11 April 2007 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 2006

	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))*	**Capital redemption reserve** HK$'000	**Hedging reserve** HK$'000	**Other reserve** HK$'000 *(Note (ii))*	**Accumulated profits** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 January 2005	32,935	294,144	1,147	6,332	4,703	–	–	312,348	651,609	800	652,409
Gain on cash flow hedges	–	–	–	–	–	4,000	–	–	4,000	–	4,000
Exchange difference arising on translation of foreign operations	–	–	7,033	–	–	–	–	–	7,033	–	7,033
Net income recognised directly in equity	–	–	7,033	–	–	4,000	–	–	11,033	–	11,033
Profit for the year	–	–	–	–	–	–	–	67,433	67,433	–	67,433
Total recognised income and expense for the year	–	–	7,033	–	–	4,000	–	67,433	78,466	–	78,466
Exercise of share options	380	1,540	–	–	–	–	–	–	1,920	–	1,920
Final dividend paid	–	–	–	–	–	–	–	(16,658)	(16,658)	–	(16,658)
Interim dividend paid	–	–	–	–	–	–	–	(9,995)	(9,995)	–	(9,995)
	380	1,540	–	–	–	–	–	(26,653)	(24,733)	–	(24,733)
At 31 December 2005	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 cash flow hedges	–	–	–	–	–	6,513	–	–	6,513	–	6,513
Exchange difference arising on translation of foreign operations	–	–	22,245	–	–	–	–	–	22,245	–	22,245
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	(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

Notes:

(i) As stipulated by the relevant 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 reserves. The statutory surplus reserves 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) 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 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**104,174**	76,614
Adjustments for:		
Allowance for (write back) inventory obsolescence	**6,667**	(866)
Allowance for bad and doubtful debts	**3,850**	2,674
Amortisation of prepaid lease payments	**2,206**	1,327
Finance costs	**30,159**	26,041
Share of profit of jointly controlled entities	**(1,176)**	(1,153)
Interest income	**(4,428)**	(3,155)
Increase in fair value of investment properties	**(4,000)**	(22,400)
Depreciation of property, plant and equipment	**59,651**	58,367
Loss (gain) on disposal of property, plant and equipment	**795**	(2,628)
Gain on disposal of available-for-sale investments	**–**	(642)
Amortisation of trademarks	**1,187**	692
Impairment loss recognised in respect of property, plant and equipment	**1,000**	747
Proceeds on disposal of derivatives financial instruments	**–**	1,071
Operating cash flows before movements in working capital	**200,085**	136,689
Increase in inventories	**(73,344)**	(3,399)
Increase in trade receivables	**(61,646)**	(24,256)
Decrease (increase) in bills receivable	**5,201**	(24,507)
(Increase) decrease in deposits, prepayments and other receivables	**(27,601)**	24,643
Decrease in amounts due from jointly controlled entities	**–**	2,277
Increase (decrease) in trade payables	**77,456**	(43,818)
(Decrease) increase in bills payable	**(1,986)**	372
Increase in other payables and accruals	**78,427**	12,019
Increase in amounts due to jointly controlled entities	**4,692**	2,786
Decrease in amount due to an associate	**(2)**	(3)
Provision for long service payments utilised	**(709)**	(570)
Cash generated from operations	**200,573**	82,233
Hong Kong Profits Tax paid	**(15,582)**	–
Overseas taxes paid	**(9,935)**	(1,507)
NET CASH FROM OPERATING ACTIVITIES	**175,056**	80,726

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(153,405)**	(76,986)
Prepaid lease payments		**(30,518)**	(2,019)
Acquisition of business	*38*	**(15,954)**	–
Acquisition of assets		**(13,414)**	–
Interest received		**4,428**	3,155
Proceeds on disposal of property, plant and equipment and land use right		**4,310**	10,292
Decrease in pledged bank deposit		**59**	5,395
Proceeds on disposal of available-for-sale investments		**–**	13,760
Decrease in certificate of deposits		**–**	10,000
Capital contribution to a jointly-controlled entity		**–**	(2,791)
NET CASH USED IN INVESTING ACTIVITIES		**(204,494)**	(39,194)
FINANCING ACTIVITIES			
New bank loans raised		**554,673**	130,000
Exercise of share options		**566**	1,920
Increase (decrease) in trust receipt loans		**181**	(2,528)
Repayment of bank borrowings		**(461,870)**	(210,110)
Dividends paid		**(26,736)**	(26,653)
Interest paid		**(22,092)**	(17,173)
Bank charges paid		**(4,791)**	(5,853)
Factoring expenses paid		**(3,239)**	(2,982)
Repayments of obligations under finance leases		**(350)**	(12)
Payment for repurchase of shares		**(160)**	–
Interest paid on obligations under finance leases		**(37)**	(33)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**36,145**	(133,424)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,707**	(91,892)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**204,033**	295,858
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**7,335**	67
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**218,075**	204,033
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**219,126**	205,426
Bank overdrafts		**(1,051)**	(1,393)
		218,075	204,033

1. GENERAL

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

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

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

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

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

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

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

1 Effective for accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2009.
3 Effective for accounting periods beginning on or after 1 March 2006.
4 Effective for accounting periods beginning on or after 1 May 2006.
5 Effective for accounting periods beginning on or after 1 June 2006.
6 Effective for accounting periods beginning on or after 1 November 2006.
7 Effective for accounting periods beginning on or after 1 March 2007.
8 Effective for accounting periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Business combinations

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

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

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

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

Interests in associates

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

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

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

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

Jointly controlled entities

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

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

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

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

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

Revenue recognition

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

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

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

Commission income are recognised when services are provided.

Property, plant and equipment

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

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

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

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

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

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

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

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

Investment properties

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

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

Intangible assets

Goodwill

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

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

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

Intangible assets other than goodwill

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group as the parent or a venturer is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Borrowing costs

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

Inventories

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

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

Retirement benefit costs

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

Financial instruments

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

Financial assets

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial instruments *(Cont'd)*

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Derivative financial instruments and hedging

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

Cash flow hedges

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

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

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

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

Financial instruments *(Cont'd)*

Financial liabilities and equity *(Cont'd)*

Derivatives that do not qualify for hedge accounting

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

Derecognition

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Impairment losses (other than goodwill)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Allowances for bad and doubtful debts

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

Income taxes

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

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

Market risk

Currency risk

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

Cash flow interest rate risk

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

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility. The management considers the interest rate exposure is limited and will consider hedging significant interest rate exposure should the need arise.

5. FINANCIAL INSTRUMENTS *(Cont'd)*

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

6. REVENUE

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

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Consolidated income statement for the year ended 31 December 2006

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

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

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

Consolidated balance sheet as at 31 December 2006

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	1,452,970	229,978	1,682,948
Unallocated corporate assets			104,724
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 intangible assets	–	10,000	10,000
Depreciation of property, plant and equipment	47,121	12,530	59,651
Impairment loss on property, plant and equipment	1,000	–	1,000
Loss on disposal of property, plant and equipment	558	237	795
Amortisation of trademarks	687	500	1,187
Allowance (write back) for bad and doubtful debts	4,002	(152)	3,850
Allowance for inventory obsolescence	5,418	1,249	6,667

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

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

Consolidated income statement for the year ended 31 December 2005

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

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

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

Consolidated balance sheet as at 31 December 2005

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

Other information for the year ended 31 December 2005

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

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

(b) Geographical segments

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

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

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

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

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

8. FINANCE COSTS

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

9. DIRECTORS' REMUNERATION

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

		Other emoluments			
	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	5,070	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

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

		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	5,070	12	1,000	6,162
Hui Yip Wing	80	2,567	12	–	2,659
Wong Shing Loong, Raymond	80	1,885	12	400	2,377
So Siu Hang, Patricia	80	1,950	12	1,000	3,042
Ip Weng Kun	80	2,220	11	–	2,311
Chan Wah Tip, Michael	80	–	–	–	80
Woo King Wai	80	–	–	–	80
Wong Shiu Hoi, Peter	160	–	–	–	160
Leung Hok Lim	80	–	–	–	80
Total for 2005	800	13,692	59	2,400	16,951

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

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

10. EMPLOYEE'S EMOLUMENTS

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

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

11. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

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

12. PROFIT FOR THE YEAR

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

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

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

13. DIVIDENDS

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

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

14. EARNINGS PER SHARE

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

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

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

16. PREPAID LEASE PAYMENTS

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

17. INVESTMENT PROPERTIES

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

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

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

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

18. INTANGIBLE ASSETS

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

18. INTANGIBLE ASSETS *(Cont'd)*

Notes:

(a) The trademarks are amortised over 10 years.

(b) For impairment assessment of goodwill, goodwill is allocated to the Group's cash generating unit (CGU) for retailing business.

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

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

(i) gross margin ranging from 50% to 70% per annum;

(ii) growth rate used to extrapolate cash flow projections beyond the period covered by budgets ranging from 0% to 2% per annum; and

(iii) discount rate of 12% per annum.

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

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

19. INTERESTS IN ASSOCIATES

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

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

Details of the Group's associate at 31 December 2006 are set out as follows:

Name of entity	**Form of business structure**	**Place of incorporation or registration/ operation**	**Proportion of nominal value of issued share capital/ registered capital held by the Group** %	**Principal activities**
Sherman-Theme (China) Limited	Incorporated	Hong Kong	37.5	Investment holding

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

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

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

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

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

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

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

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

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

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

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

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

22. INVENTORIES

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

23. TRADE RECEIVABLES

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

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

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

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

24. OTHER CURRENT FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

26. TRADE PAYABLES

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

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

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

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

27. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

28. BANK BORROWINGS

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

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

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

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

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For the year ended 31 December 2006

29. DEFERRED TAXATION

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

	Deferred tax assets						Deferred tax liabilities				
	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	Trademarks	Retirement benefits scheme contri-butions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	(881)	–	–	–	–	(881)	2,012	812	–	–	2,824
Charge (credit) to income statement for the year	188	(91)	(870)	(938)	–	(1,711)	(730)	3,920	–	–	3,190
Exchange realignment	–	3	25	27	–	55	–	–	–	–	–
At 31 December 2005 and 1 January 2006	(693)	(88)	(845)	(911)	–	(2,537)	1,282	4,732	–	–	6,014
Charge (credit) to income statement for the year	71	–	165	220	(1,800)	(1,344)	–	700	–	46	746
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	1,800	–	1,800
Exchange realignment	–	(1)	(79)	53	–	(27)	–	–	–	–	–
At 31 December 2006	**(622)**	**(89)**	**(759)**	**(638)**	**(1,800)**	**(3,908)**	**1,282**	**5,432**	**1,800**	**46**	**8,560**

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

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

30. PROVISION FOR LONG SERVICE PAYMENTS

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

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

31. SHARE CAPITAL

	Number of shares '000	**Amount** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	1,000,000	100,000
Issued and fully paid:		
At 1 January 2005	329,352	32,935
Exercise of share options	3,800	380
At 31 December 2005 and 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	**334,162**	**33,416**

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

31. SHARE CAPITAL *(Cont'd)*

Notes:

(i) During the year, the subscription rights attaching to 1,120,000 share options were exercised at the subscription price of HK$0.505 per share, resulting in the issue of 1,120,000 shares of HK$0.10 each for a total cash consideration of approximately HK$566,000.

(ii) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

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

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

32. SHARE OPTION SCHEMES

(A) Share option schemes of the Company

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

Pursuant to the New Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and options granted and yet to be exercised under any other schemes will not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the Company's shares in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (2) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant of the option; and (3) the par value of the Company's shares.

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

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

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

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

The following share options were outstanding during the year:

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

Notes:

(1) 40% of the options granted are exercisable during the period from 5 May 2002 to 4 May 2009, 30% of the options granted are exercisable during the period from 5 May 2003 to 4 May 2009 and the remaining 30% of the options granted are exercisable during the period from 5 May 2004 to 4 May 2009.

(2) Ip Weng Kun resigned as director on 30 December 2005.

(3) The weighted average closing price of the Company's share immediately before the dates of which the options were exercised was HK$1.58 (2005: HK$1.58).

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

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

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

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

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

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

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

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

33. NON-CASH TRANSACTIONS

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

34. PLEDGE OF ASSETS

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

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

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

35. OPERATING LEASES

(a) The Group as lessor

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

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

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

35. OPERATING LEASES *(Cont'd)*

(b) The Group as lessee

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

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

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

36. CAPITAL COMMITMENT

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

37. RELATED PARTY TRANSACTIONS

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

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

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

Compensation of key management personnel

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

38. ACQUISITIONS OF BUSINESS / ASSETS

(i) Acquisition of business

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

The net assets acquired in the transaction are as follows:

	Carrying amount before combination 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

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

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

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

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

(ii) Acquisition of assets

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

39. POST BALANCE SHEET EVENT

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

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
Angel Star Investment Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	75 75	Holding of trademarks
August Silk Inc.	USA	US$10	100	Marketing and garment trading
Anway Garment Limited	Hong Kong	HK$2	100	Garment trading
Bramead International Inc.	British Virgin Islands/USA	US$1	100	Holding of trademarks

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

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
Cantabian Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	100 100	Investment holding
Dongguan Daliesheng Fashion Co., Ltd. *(Note 1)*	PRC	HK$28,000,000	100	Garment manufacturing
Dongguan Sanyue Fashions Limited *(Note 2)*	PRC	HK$10,000,000	69	Garment manufacturing
Eminent Garment Limited	Hong Kong	HK$2	100	Garment trading
Guangdong Theme-Huayu Fashion Company Limited *(Note 1)*	PRC	RMB5,000,000	75	Garment retailing
Hangzhou High Fashion Knitwear Co., Ltd. *(Note 1)*	PRC	RMB3,000,000	100	Garment manufacturing
High Fashion Garments, Inc.	USA	US$5,000	100	Marketing and garment trading
High Fashion Apparel Limited	British Virgin Islands / Hong Kong	US$1,000	100	Investment holding
High Fashion (China) Co., Ltd. *(Note 1)*	PRC	US$14,600,000	100	Dyeing, printing and sandwashing of fabrics and garment manufacturing
High Fashion (BVI) Limited	British Virgin Islands/PRC	US$1	100	Product sourcing and development
High Fashion (FG) Limited	British Virgin Islands/PRC	US$1	100	Garment manufacturing
High Fashion (HZ) Limited	British Virgin Islands/PRC	US$1	100	Garment manufacturing

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

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
High Fashion Garments Company Limited	Hong Kong	HK$2 ordinary HK$10,000,000 Non-voting deferred	100 100	Garment trading
High Fashion Garments Macao Commercial Offshore Limited	Macau	MOP100,000	100	Garment trading and agency
High Fashion Garments Management Limited	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	100 100	Provision of management services
High Fashion International (USA) Inc.	USA	US$1,800	100	Investment holding
High Fashion Knit Company Limited	Hong Kong	HK$2	100	Garment trading
High Fashion Knitwear Overseas Limited	Hong Kong	HK$2 Ordinary HK$10,000 Non-voting deferred	100 100	Garment trading
High Fashion Silk (Zhejiang) Co., Ltd. (Note 1)	PRC	US$20,000,000	100	Silk weaving
High Fashion (UK) Limited	United Kingdom	GBP20,000	70.5	Garment trading
Navigation Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Stage II Limited	Hong Kong	HK$800,000	75	Garment retailing
Taiwan Vision Company Limited	Taiwan	NT$80,000,000	75	Garment retailing
Theme Corporate Fashion ((Asia) Limited	Hong Kong	HK$1	75	Garment trading
Theme Corporate Fashion ((Europe) Limited	Hong Kong	HK$1	75	Garment trading
Theme Corporate Fashion ((Overseas) Limited	Hong Kong	HK$1	75	Garment trading
Theme (Dongguan) Limited	British Virgin Islands/PRC	US$1	75	Garment trading

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

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
Theme Garments (Shenzhen) Company Limited *(Note 1)*	PRC	RMB10,000,000	75	Garment retailing and trading
Theme Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	75	Garment retailing
Theme Industry Hangzhou Company Limited *(Note 1)*	PRC	US$2,000,000	75	Garment retailing and trading
The King Garment Limited	Hong Kong	HK$2	100	Garment trading
Theme	Bermuda/Hong Kong	HK$50,166,588	75	Investment holding
Theme International Limited	Hong Kong	HK$2 Ordinary HK$1,000,000 Non-voting deferred	75 75	Garment trading
Winsmart Overseas Limited	Hong Kong	HK$2	100	Garment trading

Notes:

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

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

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

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

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

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

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

	1.1.2006 to 31.12.2006 HK$'000	1.1.2005 to 31.12.2005 HK$'000	1.1.2004 to 31.12.2004 HK$'000	1.1.2003 to 31.12.2003 HK$'000	1.10.2001 to 31.12.2002 HK$'000
Revenue	**2,253,198**	2,108,497	1,964,018	1,917,911	2,173,480
Profit (loss) before taxation	**104,174**	76,614	51,309	35,264	(20,993)
Taxation	**(19,030)**	(9,181)	(5,461)	(1,998)	(2,192)
Profit (loss) for the year	**85,144**	67,433	45,848	33,266	(23,185)
Attributable to					
Equity holders of the Company	**85,118**	67,433	72,400	33,266	(23,912)
Minority interests	**26**	–	(26,552)	–	727
	85,144	67,433	45,848	33,266	(23,185)

ASSETS AND LIABILITIES

	31.12.2006 HK$'000	31.12.2005 HK$'000	31.12.2004 HK$'000	31.12.2003 HK$'000	31.12.2002 HK$'000
Total assets	**1,787,672**	1,431,137	1,480,571	1,361,473	1,316,117
Total liabilities	**(992,765)**	(724,995)	(829,233)	(756,924)	(742,639)
	794,907	706,142	651,338	604,549	573,478

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah
(Chairman and Managing Director)
Mr. Hui Yip Wing
Mr. Wong Shing Loong, Raymond
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. Wong Shing Loong, Raymond

COMPANY SECRETARY

Ms. Chan Wai Wei, Cynthia

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

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

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

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

Shareholders & Investor Relation Information

RESULTS ANNOUNCEMENT:–

2006 Final	11 April 2007
2006 Interim	13 September 2006
2005 Final	13 April 2006
2005 Interim	16 September 2005
2007 Annual General Meeting	5 June 2007
Closure of Register of Members	Period from 1 June 2007 to 5 June 2007

DIVIDENDS:–

2006 Final	HK 7 cents per share payable on or about 15 June 2007
2006 Interim	HK 3 cents per share paid on 11 October 2006
2005 Final	HK 5 cents per share paid on 16 June 2006
2005 Interim	HK 3 cents per share paid on 19 October 2005
Authorised Shares	1,000,000,000
Issued Shares	334,161,550 (as at 31 December 2006)
Board Lot	2,000 shares
Par Value	HK$0.1000
Financial Year End	December 31
Stock Code	608
Internet Website	www.highfashion.com.hk
Listing Date	4 August 1992