High Fashion International Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 608)

ANNUAL REPORT 2005

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

Mission Statement

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

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Chairman's Statement:

It has long been the Group's mission to be one of the world's recognised leaders in fashion apparel, with distinct focus on continuous improvement on technology to enhance the value of the products through state of the art silk weaving, printing, dyeing and garment finishing. Concrete action plan started more than 3 years ago. Firstly, the Group invested in the establishment of an advanced plant in Xinchang, which is equipped with the state of the art rapier loom from Italy and auxiliary facilities from Germany and Switzerland. It has also continuously invested in Hangzhou with updated printing and dyeing equipment. The Group also brings in leading experts from Italy in fabrics, yarn development, printing, dyeing and finishing; thus enhancing the quality and design of its products to world class.

In 2005, High Fashion decided to establish a first class production base of world class silk ladies apparel to further support our mission. This vision of High Fashion coincided with a major strategy of Hangzhou Municipal Committee and Municipal Government, which is "promoting the Home of China Silk to become the World Capital of ladies apparel". Our major development projects had hence drawn attention and full support from the Hangzhou Municipal Committee and Municipal Government. Secretary of the Municipal Committee, the Mayor and others had visited the Group and assisted the smooth implementation of the project. Our project is identified as the number one project of "promoting the Home of China Silk to become the World Capital of ladies apparel" and a major project of the 11th Five Year Plan of Hangzhou. It is an encouragement to the Group and also a drive for us.

The Group's company in Xinchang was the only enterprise that was awarded "Development Base of New Silk Products in China" by the China Silk Association in the past two years. Our company in Hangzhou, for 2 consecutive years, ranked number one in export of silk apparel among the fashion enterprises in China. However, it is still a long way for the Group to achieve the ultimate goal of becoming the world's first class apparel enterprise. Under full support from the government, the company in Hangzhou is currently endeavouring to carry out construction of new factories and renovation on the existing plant of High Fashion (China). The construction of a new complex of international standard will soon commence. The foundation ceremony will be hosted by Hangzhou Municipal Government on 20 April. The complex is expected to be ready for full scale operation by the end of 2007. The Group will then provide a better working and living environment for its assiduous employees, and also provide a development platform for achieving ultimate corporate goals.

The Group has well defined objective and direction of its future development. The Group believes that, by upgrading our production technology and hence our products to a world class quality level, we can enhance the added value of our products and achieve breakthrough in market competition. Implementation is under way with full force. In the second half of 2005, the appreciation of and the expected continual appreciation of Renminbi, together with the escalating price of raw silk, had a major impact on low end silk apparel market. The developments in the market are confirming the need of our strategy. The Group will endeavour to establish a modernized silk apparel enterprise, to strengthen the glorious history of Chinese silk, and to accomplish the strategic targets of Hangzhou Municipal Committee and Municipal Government. This is a most challenging and demanding mission. Nevertheless, the Group is committed in achieving the adorable target of becoming the world's top class silk enterprise and world class apparel enterprise; with full back up from 12,000 employees who contributed wholeheartedly towards this historical mission. The Group will endeavour to ensure its success.

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.

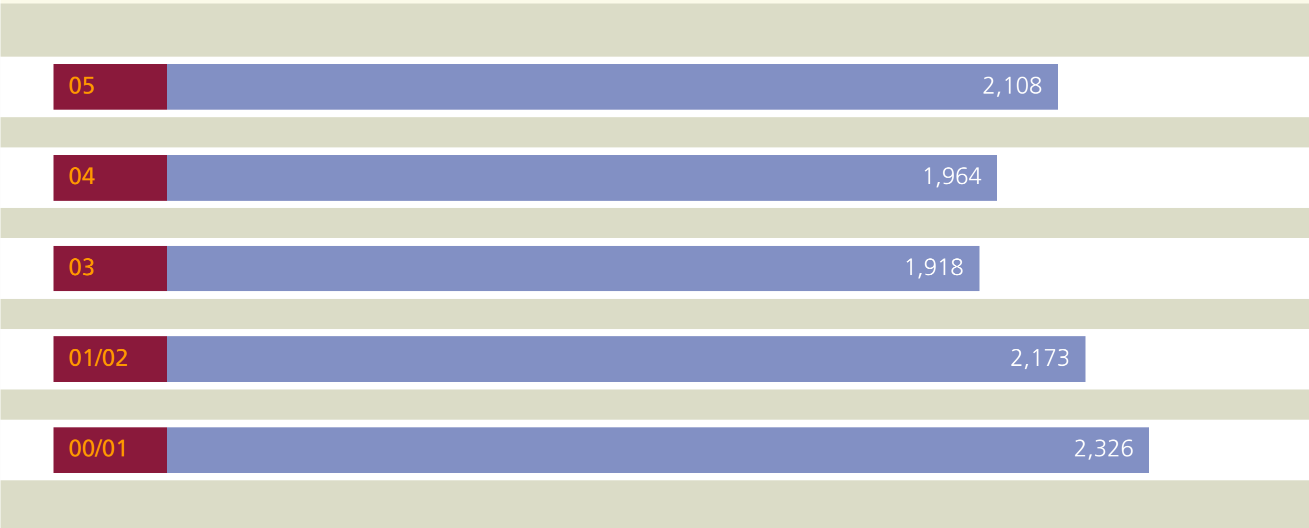
Lam Foo Wah
Chairman

Hong Kong, 13 April 2006

Financial Highlights:

TURNOVER

(HK$ Million)



NET ASSET PER SHARE

(HK$)

Management Discussion and Analysis:

RESULTS

Turnover for the year ended 31 December 2005 increased by 7% to HK$2.11 billion. Net profit attributable to shareholders for the year ended 31 December 2005 was HK$67.4 million, compared with a reported profit of HK$72.4 million of last year. Basic earnings per share was 20.3 HK cents. Net asset value per share was HK$2.1.

REVIEW OF OPERATIONS

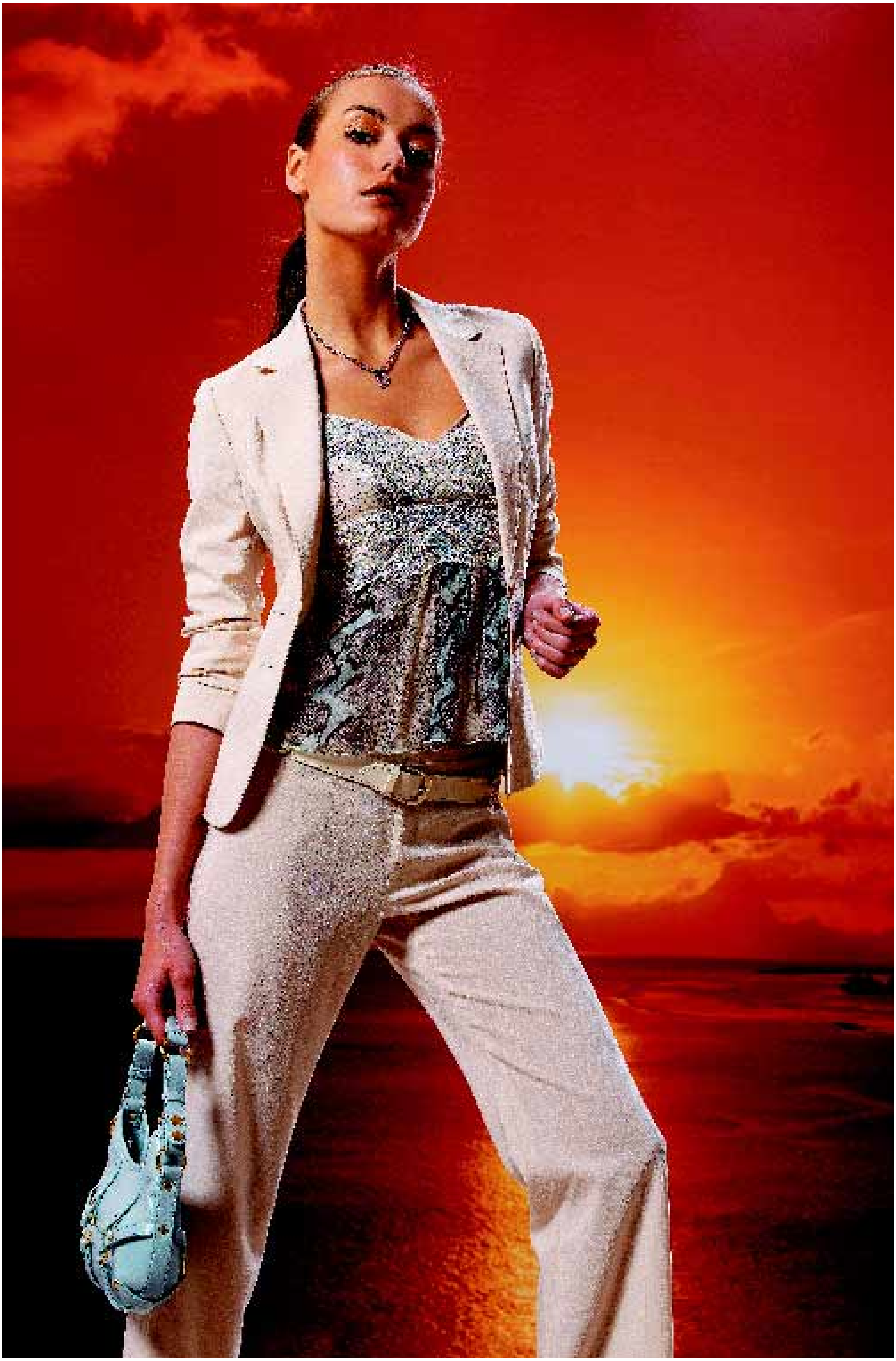
The segmental information is as follows:–

	2005	2004	**2005**	2004
	Turnover		**Operating profit**	
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
Manufacturing and trading	**1,856,872**	1,769,026	**100,695**	81,495
Retailing and uniform	**251,625**	194,992	**807**	(7,065)
	2,108,497	1,964,018	**101,502**	74,430
By geographical segments:				
USA	**1,431,675**	1,329,009	**76,109**	65,401
Europe	**298,100**	250,857	**1,307**	1,248
Greater China	**348,875**	364,484	**20,988**	5,775
Others	**29,847**	19,668	**3,098**	2,006
	2,108,497	1,964,018	**101,502**	74,430

The Group recorded growth in both turnover and operating profit of our core manufacturing and trading business when compared with last year. In accordance with the new Hong Kong Financial Reporting Standards, the operating profit in the Greater China region for the year of 2005 reflected a fair value change on investment properties of HK$22.4 million located in Hong Kong.

Geographically, the United States continued to be the Group's major export market, accounting for 68% of sales turnover for the year 2005. Turnover of August Silk was strategically tightened at a slightly lower level of 36% (2004: 41%) of our sales in the USA to synchronize with its management restructuring and revised marketing strategy. We expect August Silk's operation to turn around towards the latter part of this year.

Sales to the European market increased by 19% of turnover for the year 2005. We are now set to accelerate our business expansion in the European market with new products and intensified marketing activities.



Management Discussion and Analysis:

The turnover of retailing and uniform amounted to HK$252 million, increasing by 29% when compared with the year of 2004. The operating profit on retailing and uniform included the loss of the newly developed uniform business. The retailing business recorded a net operating profit of HK$3 million for the year of 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were reduced to HK$369 million at the balance sheet date compared to HK$453 million as at 31 December 2004. Our gearing ratio of non-current liabilities to shareholders' funds was 10% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.4.

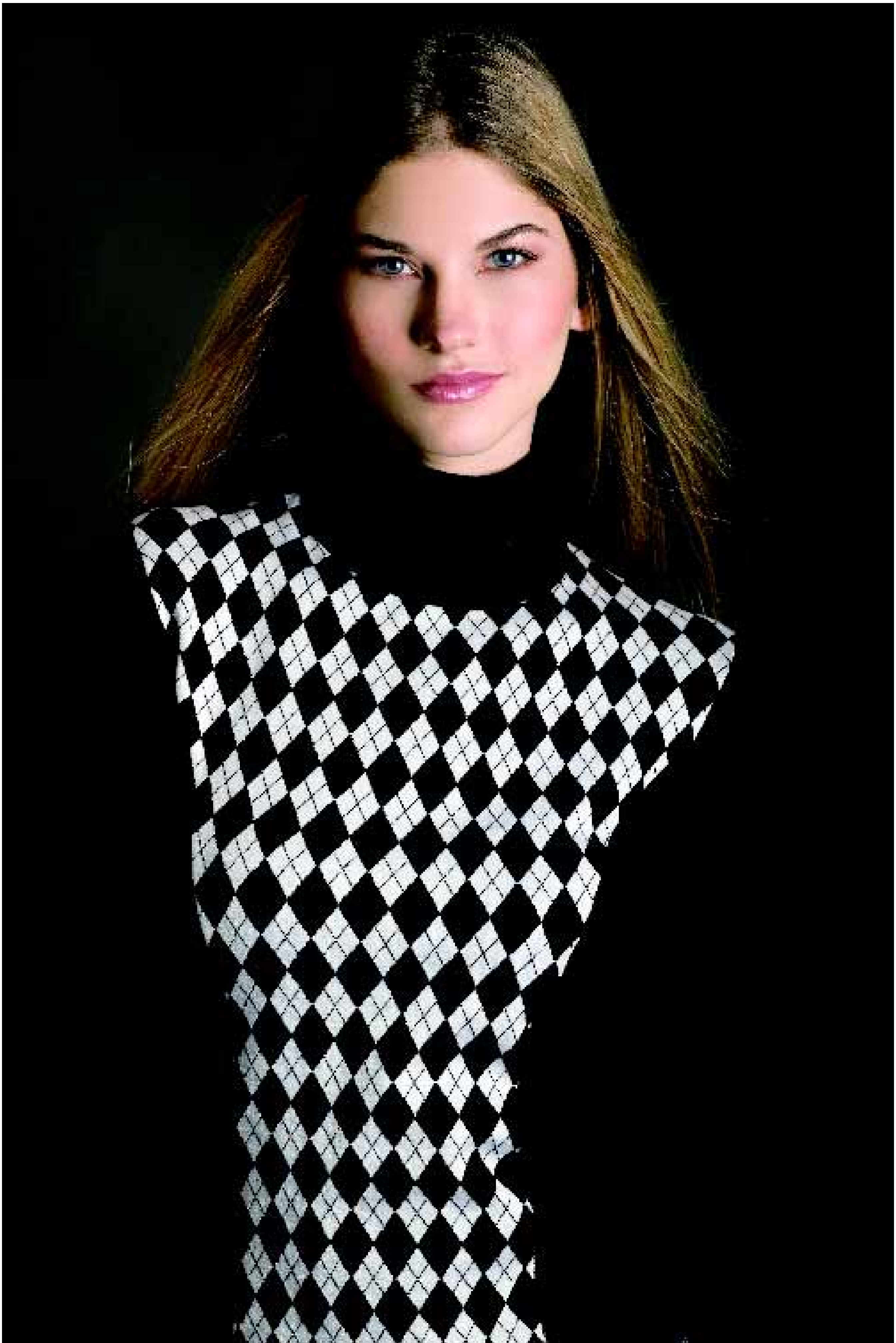
The Group's total cash and bank balances were HK$205 million at the balance sheet date. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the operating needs.

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 period.

The Group has no material contingent liabilities. Barring the pledge of trade receivables of certain subsidiaries of HK$98 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 to 2004/2005. The management is of the opinion that, in all the years, full Hong Kong tax provision were made on the Hong Kong sourced income. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate since the tax audit is still at a preliminary fact-finding stage with different views being exchanged with the IRD and the outcome of the tax audit cannot be readily ascertained with any degree of accuracy.



Management Discussion and Analysis:

IMPACT OF CHANGES IN ACCOUNTING STANDARDS

The Group has adopted certain new or revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred as to the "NEW HKFRSs") in the current year. The impacts of these New HKFRSs are set out as below.

Pursuant to HKAS 17 "Leases", up-front payments made for leasehold land with a carrying value of approximately HK$46 million as at 31 December 2005 (31 December 2004: HK$45 million) are reclassified as prepaid lease payments instead of property, plant and equipment, which are expensed in the consolidated income statement on a straight-line basis over the period of the leases.

In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the Group's discounted bills and factored trade receivables with recourse of approximately HK$37 million, which were previously not recognised but treated as contingent liabilities, have been re-recognised as bills and trade receivable of the Group and the corresponding proceeds received have been accounted for as bank advances.

In accordance with HKAS 40 "Investment Property", the Group has adopted the fair value model in accounting for its investment property. At the balance sheet date, the investment property has been included at market value as determined by a professional valuer, with fair value changes of HK$22.4 million recognised in the consolidated income statement.

HUMAN RESOURCE

The total number of employees of the Group including jointly controlled entities as at the balance sheet date was about 12,000. 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

There was no material capital expenditure during the year.

Biographical Details of Directors and Senior Management:

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 57, is the Chairman and the Managing Director of the Company and a co-founder of the Group. He is also the chairman of Theme International Holdings Limited. He oversees the Group's operations and is responsible for formulating the Group's overall policy and development. He has over 29 years' experience in the manufacturing and marketing of garments. As at 31 December 2005, pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Mr. Lam personally owns 3,800,000 shares and is deemed to have 129,013,986 shares interest in the Company. The deemed interest in 94,096,419 shares and 34,917,567 shares are held by Hinton Company Limited and High Fashion Charitable Foundation Limited respectively which are beneficially owned by two discretionary trusts. Mr. Lam is regarded as a founder of the trusts.

Mr. HUI Yip Wing, aged 56, joined the Group in 1996. 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 56, joined the Group in 1997. He is responsible for the financing, personnel and administration of the Group. Mr. Wong is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Wong is also an executive director of Theme International Holdings Limited. Prior to joining the Group, he had worked as an executive director in a Hong Kong listed company.

Ms. SO Siu Hang, Patricia, aged 47, joined the Group in 1990. She is responsible for the strategic direction and operational leadership of the core manufacturing unit. She received a bachelor's degree in commerce and finance and a master's degree in business administration from the University of Toronto and York University in Canada respectively. Prior to joining the Group, she had worked for an international bank.

NON-EXECUTIVE DIRECTOR

Mr. CHAN Wah Tip, Michael, aged 53, joined the Group as a company secretary in 1992 and was appointed as a non-executive director in 1995. He has been practising as a solicitor in Hong Kong for over 20 years and is a partner of Wilkinson & Grist, the legal adviser of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WOO King Wai, aged 61, joined the Group in 1992. 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 is currently 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 65, joined the Group in 2004. He holds a Master of Business Administration Degree from the University of East Asia, Macau. Mr. Wong possesses over 30 years of experience in the financial services industry. He is the managing director and chief executive of Tai Fook Securities Group Limited and an independent non-executive director of Ching Hing (Holdings) Limited and Theme International Holdings Limited, and the shares of these companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Wong is a listing committee member of the Stock Exchange and a deputy-chairman of The Hong Kong Institute of Directors.

Mr. LEUNG Hok Lim, *FCPA (Aust.), CPA (Macau), FCPA (Practising)*, aged 71, joined the Group in 2004. He is the founding and senior partner of PKF, Certified Public Accountants. Mr. Leung obtained his 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 a number of listed companies.

SENIOR MANAGEMENT

Mr. CHAN Chun Man, aged 51. He joined the Group in 1992 and 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 investments 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.

Miss CHAN Wai Wei, Cynthia, aged 33, joined the Group in 2000. She is the company secretary of the Company. She has about 10 years' experience in accounting and auditing. Prior to joining the Group, she was a manager of an international accounting firm. She is a member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. CHAN Wo Kit, Victor, aged 47, joined the Group in 1998. He has over 20 years' experience in marketing, product development, production operation of garment field both in HK and China. He is an assistant director of a subsidiary of the Company and responsible for the marketing and sales, product development and management of factory's production operation of China.

Ms. Ellen DAWSON-BRUCKENTHAL, aged 49, 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.

Biographical Details of Directors and Senior Management:

Mr. FEI Jian Ming, aged 54, is a Director of High Fashion Garments Company Limited and the General Manager of High Fashion (China) Company Limited. He joined the Group in 1993. He graduated from Zhejiang University and holds a master degree in business administration and is the Senior Economist. He is a part-time professor of Zhejiang Institute of Science & Technology, the vice-president of Hangzhou Foreign Investment Association, Hangzhou Garments Association & Zhejiang Silk Association . He has over 20 years' management experience in clothing industry.

Mr. Daniele FURLAN, aged 49, joined the Group in 2004. He holds a diploma in business administration and a master in psychology from Padova University. Previously he has been working as manager in the Benetton Group for more than 25 years, where he was responsible of various production units and sourcing divisions. In particular he was responsible for the worldwide production licensing, managing director of Lanificio di Follina, fabric mill of the Benetton Group, responsible for garment, accessories and shoes outsourcing department and also, for seven years, managing director of Benetton (Far East) in Hong Kong.

Mr. Donald HORNING, aged 59 is the CEO of August Silk Inc. Don has held senior posts at sportswear and knitwear companies as well as being a partner in his own firm over the past 25 years. Prior to becoming the CEO of August Silk Inc., he served as a Group Vice President of High Fashion Garments, Inc. starting from 1999. He graduated from Syracuse University with a bachelor's degree in business administration. He attended the Executive Graduate Studies Program at The University of Chicago.

Ms. HU Ze Lin, aged 55, is the Deputy General Manager of High Fashion Silk (Zhejiang) Co. Ltd. She is responsible for the production of that company. She joined the Group in 1993. She possessed matriculated education and got the title of Economist in China. She has over 30 years' experience in textile industry with good experience in quality control in silk weaving production management.

Ms. LEUNG Suk Yin, Hilda, aged 49, has been with the Group since its inception. She holds a diploma in business management from the Hong Kong Polytechnic University and the Hong Kong Management Association. She has over 20 years' experience in the sales and merchandising of garments in Hong Kong and is a Director of High Fashion Garments Company Limited.

Mr. LIN Ping, aged 45, is the General Manager of High Fashion Silk (Zhenjiang) Co., Ltd. He is responsible for the operation and administration. He is also a permanent member of China Silk Association, a permanent member of China Fashion Color Association, a deputy general director of China Fashion Color Association Silk Committee, a permanent member of Zhejiang Province Silk Association. He joined the Group in 1993. He got the university level and the title of Economist in China. He has over 30 years' experience in textile industry with wide experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 45, 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 Company Secretaries and The Institute of Chartered Secretaries & Administrators. He also holds a master's degree in business administration.

Biographical Details of Directors and Senior Management:

Mr. RUAN Gen Yao, aged 45, is the general manager of Hangzhou Dalifu Silk Finishing Co., Ltd. He is responsible for the operation of that company. He joined the Group in 2001. He got the title of Politician Engineer in China and being 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 with good experience in business management and silk finishing and dyeing.

Mr. WANG Xiao, aged 45, has completed tertiary education and is currently the General Manager of Dongguan Dalisheng Fashion Co., Ltd. (formerly known as Dongguan Daliwai Fashion Co., Ltd.). He joined the Group in 1996 and possesses over 15 years of experience in fashion management.

Mr. Nicholas E. G. WRIGHT, aged 51, joined the Group in 1993. He is the managing director of High Fashion (U.K.) Limited. He has over 19 years' experience in the clothing industry.

Mr. ZHANG Shan Pu, aged 50, is the general manager of Suzhou High Fashion Garments Co., Ltd. He is responsible for the operation of that company. He joined the Group in 1999. He graduated from an institution and has over 10 years' experience in silk knitting garments management with good experience in business management and silk knitting production.

Mr. ZHANG Yue Quan, aged 35, is currently the Deputy General Manager of High Fashion (China) Co., Ltd. He joined the Group in 1994. He graduated from the Faculty of Administration of Beijing Fashion College and further attained a MBA postgraduate certificate from 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 is experienced 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 2005.

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 42 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 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 30 to 91.

An interim dividend of 3 HK cents per ordinary share was paid on 19 October 2005. The directors recommended the payment of a final dividend of 5 HK cents per ordinary share in respect of the year to shareholders on the register of members on 6 June 2006.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 92. 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 16 and 18 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 34 and 35 to the financial statements, respectively.

Report of the Directors:

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2005, 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.

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 2005, 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$161,109,000, of which HK$16,658,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$295,684,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK$1,391,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales and purchases attributable to the Group's five largest customers and supplies accounted for less than 30% of the total Group's sales and purchases for the year, respectively.

Report of the Directors:

DIRECTORS

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

Executive directors:

Lam Foo Wah
Ip Weng Kun (resigned on 30 December 2005)
Hui Yip Wing
Wong Shing Loong, Raymond
So Siu Hang, Patricia

Non-executive director:

Chan Wah Tip, Michael

Independent non-executive directors:

Woo King Wai
Wong Shiu Hoi, Peter
Leung Hok Lim

In accordance with the Company's bye-laws, Messrs. Lam Foo Wah, Hui Yip Wing and Wong Shing Loong, Raymond will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

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 2005, and the Company considered that they are independent.

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

No director 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 41 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests 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 Divisions 7 and 8 of Part XV of the SFO (including interests 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

		Number of ordinary shares held, capacity and nature of interests					Percentage of the Company's issued capital
Name of director	*Notes*	**Personal**	**Family**	**Other**	**Underlying shares** *(Note 3)*	**Total**	
Lam Foo Wah	*1, 2*	3,800,000	–	129,013,986	–	132,813,986	39.87%
Hui Yip Wing		–	2,652,007	–	–	2,652,007	0.80%
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000	1.08%
So Siu Hang, Patricia		2,104,309	–	–	720,000	2,824,309	0.85%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS 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	Number of ordinary shares held	Capacity and nature of interest	Percentage of the associated corporation's issued capital
Lam Foo Wah	*4*	High Fashion Knitters Limited	Subsidiary	5,339,431	Through controlled corporations	35.60%

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 94,096,419 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 in respect of options granted to them are stated in note 35 to the financial statements.

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

Save as disclosed above, as at 31 December 2005, none of the directors, chief executive of the Company nor their associates had or was deemed to have any interests or short position 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 note 35 to the financial statements, at no time during the year ended 31 December 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the interests of the following substantial shareholders, other than directors and chief executives of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to 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 the SFO:

Long Positions in the Company's Ordinary Shares

Name of Shareholder	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hinton Company Limited	*1*	Beneficial owner	94,096,419	28.24%
Veer Palthe Voute NV ("VPV")	*2*	Investment manager	40,009,000	12.01%
Dresdner Bank Aktiengesellschaft ("DBAG")	*2*	Interest of controlled corporations	40,009,000	12.01%
Allianz Aktiengesellschaft ("AAG")	*2*	Interest of controlled corporations	40,009,000	12.01%
High Fashion Charitable Foundation Limited	*1*	Beneficial owner	34,917,567	10.48%
Excel Investments Ltd.		Beneficial owner	27,150,000	8.15%

Notes:

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

2. The 40,009,000 ordinary shares are held directly by VPV, of which is indirectly controlled by AAG and DBAG and therefore are deemed to have an indirect interest in the 40,009,000 ordinary shares.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executives of the Company, whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest 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.

CHANGE OF CHINESE NAME

The Company changed its Chinese name to 達利國際集團有限公司 on 8 June 2005.

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.

CHANGE IN ACCOUNTING POLICIES

The explanations for changes in accounting policies are listed out in notes 2 and 3 of the financial statements.

SUBSEQUENT EVENTS

Details of the subsequent events are disclosed in note 43 to the financial statements.

AUDITORS

The financial statements for the year ended 31 December 2005 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, 13 April 2006

Corporate Governance Report:

The Code of Best Practice (the "Code of Best Practice") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was replaced by the Code on Corporate Governance Practices (the "CG Code") which has become effective for accounting periods commencing on or after 1 January 2005.

On 31 May 2005, the Company's Articles of Association was amended to provide that all directors shall retire on such manner of rotation i.e. once every three years, and that the newly appointed director shall be subject to re-election at the first general meeting after their appointment as required by the Listing Rules.

During the year, the Company complied with the Code of Best Practice, applies and adopts the principles and complied with all code provisions except code provision on A.1.1 and A.2.1 on the holding of Board meetings in each year and the separate roles of the chairman and CEO as described below and to certain extent of the recommended best practices of the CG Code.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of directors (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.

The Board of the Company comprises a total of eight directors, with 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. Ip Weng Kun *	Deputy 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

* *Mr. Ip Weng Kun resigned on 30 December 2005*

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

One third of the Board member 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 CG Code and the Company's Articles of Association (after its amendment on 31 May 2005). Review will be made regularly of the Board composition 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; approval of annual budgets and business plans; 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. 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. Three Board meetings were held during the year for facilitating the function of the Board. The Board believes that the three Board meetings held during the financial year were adequate to cover all major issues during such period. In any event all directors were available for consultation by management from time to time during the year. The attendance of the directors at the Board meeting is disclosed on page 27 of this report.

Management is responsible for the day-to-day operations of the Group under the leadership of 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. 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.

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.

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.

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.

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. Specific enquiry has been made with all directors and the directors have complied with the required standard set out in the Model Code for the year ended 31 December 2005.

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 Report of the Auditors on page 29.

AUDITORS' REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu. For the year ended 31 December, 2005, the Auditors of the Company received approximately HK$2.7 million for audit service and HK$130,000 for tax and consultancy services.

AUDIT COMMITTEE

The Company has complied with the requirement of the Listing Rules requirement 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 of the Company (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 were revised during the year. The terms of reference of the Audit Committee are posted on the Company's website.

The Audit Committee of the Company which 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, has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2005.

The principal duties of the Audit Committee include the review and 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. Regular meetings have been held by the Audit Committee since its establishment. Two Audit Committee meetings were held during the year and the record of attendance of individual members is listed out on page 27.

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.

REMUNERATION COMMITTEE

According to the requirement of the CG Code, the Company set up a remuneration committee ("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. Leung Hok Lim and Mr. Woo King Wai. Remuneration Committee meeting has been convened in September 2005 and the 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.

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. There was no meeting held for nomination of directors nor there was any person nominates to fill board vacancy during the year.

RECORDS FOR BOARD AND RESPECTIVE BOARD COMMITTEES MEETINGS HELD DURING THE YEAR

	Attendance/Number of Meetings held		
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive directors:			
Mr. Lam Foo Wah	3/3	N/A	1/1
Mr. Ip Weng Kun*	3/3	N/A	N/A
Mr. Hui Yip Wing	3/3	N/A	N/A
Mr. Wong Shing Loong, Raymond	3/3	N/A	N/A
Ms. So Siu Hang, Patricia	2/3	N/A	N/A
Non-executive director:			
Mr. Chan Wah Tip, Michael	2/3	1/2	0/1
Independent non-executive directors:			
Mr. Woo King Wai	3/3	2/2	1/1
Mr. Wong Shiu Hoi, Peter	3/3	2/2	1/1
Mr. Leung Hok Lim	3/3	2/2	1/1

** Mr. Ip Weng Kun resigned on 30 December 2005.*

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes 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.

INTERNAL CONTROL AND RISK MANAGEMENT *(cont'd)*

The internal control system will be reviewed on an ongoing by the Board in order to make it practical and effective.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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.

Report of the Auditors:

Deloitte.

德勤

TO THE MEMBERS OF HIGH FASHION INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of High Fashion International Limited (the "Company") and its subsidiaries (the "Group") from pages 30 to 91 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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 2005 and of the profit and cash flows of the Group for the year then ended 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
13 April 2006

Consolidated Income Statement:

For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
TURNOVER	7	**2,108,497**	1,964,018
Cost of sales		**(1,506,305)**	(1,408,417)
Gross profit		**602,192**	555,601
Other income		**60,253**	27,195
Selling and distribution expenses		**(278,150)**	(234,329)
Increase in fair value of investment properties		**22,400**	–
Administrative expenses		**(304,446)**	(271,177)
Impairment loss recognised in respect of property, plant and equipment		**(747)**	(2,860)
Finance costs	9	**(26,041)**	(24,360)
Share of results of jointly controlled entities		**1,153**	1,239
PROFIT BEFORE TAXATION		**76,614**	51,309
Taxation	12	**(9,181)**	(5,461)
PROFIT FOR THE YEAR	13	**67,433**	45,848
Attributable to			
Equity holders of the Company		**67,433**	72,400
Minority interests		**–**	(26,552)
		67,433	45,848
EARNINGS PER SHARE	15		
Basic		**20.3 cents**	22.0 cents
Diluted		**20.1 cents**	21.6 cents

Consolidated Balance Sheet:

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*16*	**371,327**	354,944
Prepaid lease payments	*17*	**44,957**	43,538
Investment properties	*18*	**64,000**	41,600
Intangible assets	*19*	**3,977**	4,669
Interests in associates	*20*	**–**	–
Interests in jointly controlled entities	*21*	**14,695**	10,561
Available-for-sale investments	*22*	**675**	–
Investments in securities	*23*	**–**	13,793
Deferred tax assets	*32*	**2,537**	881
		502,168	469,986
CURRENT ASSETS			
Inventories	*24*	**333,051**	328,786
Trade receivables	*25*	**272,751**	251,169
Bills receivable	*26*	**45,161**	20,654
Prepaid lease payments	*17*	**1,327**	1,390
Deposits, prepayments and other receivables	*26*	**67,094**	91,737
Amounts due from jointly controlled entities	*21*	**–**	2,277
Derivatives	*27*	**4,000**	–
Certificate of deposits	*28*	**–**	10,000
Pledged bank deposits	*37*	**159**	5,554
Bank balances and cash	*26*	**205,426**	299,018
		928,969	1,010,585
CURRENT LIABILITIES			
Trade payables	*29*	**172,257**	216,075
Bills payable	*26*	**6,012**	5,640
Other payables and accruals	*26*	**131,405**	119,386
Amounts due to jointly controlled entities	*21*	**4,542**	1,756
Amount due to an associate	*20*	**602**	605
Tax payable		**32,904**	26,701
Obligations under finance leases	*30*	**222**	262
Bank borrowings	*31*	**305,723**	345,128
		653,667	715,553

Consolidated Balance Sheet:

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
NET CURRENT ASSETS		**275,302**	295,032
TOTAL ASSETS LESS CURRENT LIABILITIES		**777,470**	765,018
NON-CURRENT LIABILITIES			
Obligations under finance leases	*30*	**290**	262
Bank borrowings	*31*	**63,000**	108,000
Deferred tax liabilities	*32*	**6,014**	2,824
Provision for long service payments	*33*	**2,024**	2,594
		71,328	113,680
		706,142	651,338
CAPITAL AND RESERVES			
Share capital	*34*	**33,315**	32,935
Reserves		**672,027**	617,603
Equity attributable to equity holders of the Company		**705,342**	650,538
Minority interests		**800**	800
		706,142	651,338

The financial statements on pages 30 to 91 were approved and authorised for issue by the Board of Directors on 13 April 2006 and are signed on its behalf by:

Lam Foo Wah
DIRECTOR

Wong Shing Loong, Raymond
DIRECTOR

Consolidated Statement of Changes in Equity:

For the year ended 31 December 2005

	Share capital HK$'000	Share premium account HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 *(note (a))*	Capital reserve HK$'000 *(note (b))*	Capital redemption reserve HK$'000	Investment properties revaluation reserve HK$'000	Hedging reserve HK$'000	Accumulated profits HK$'000	Dividend reserve HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004 as originally stated	32,740	293,354	859	6,266	6,061	4,703	3,359	–	238,973	9,822	596,137	9,000	605,137
Effect of changes in accounting policies *(see note 3)*	–	–	–	–	–	–	(588)	–	–	–	(588)	–	(588)
At 1 January 2004 as restated	32,740	293,354	859	6,266	6,061	4,703	2,771	–	238,973	9,822	595,549	9,000	604,549
Surplus on revaluation of investment properties	–	–	–	–	–	–	1,277	–	–	–	1,277	–	1,277
Deferred tax liability arising on revaluation of investment properties	–	–	–	–	–	–	(224)	–	–	–	(224)	–	(224)
Exchange difference arising on translation of foreign operations	–	–	288	–	–	–	–	–	–	–	288	–	288
Net income recognised directly in equity	–	–	288	–	–	–	1,053	–	–	–	1,341	–	1,341
Net profit for the year	–	–	–	–	–	–	–	–	72,400	–	72,400	(26,552)	45,848
Total income recognised for the year	–	–	288	–	–	–	1,053	–	72,400	–	73,741	(26,552)	47,189
Transfer from accumulated profits	–	–	–	66	–	–	–	–	(66)	–	–	–	–
Exercise of share options	195	790	–	–	–	–	–	–	–	–	985	–	985
Final dividend paid	–	–	–	–	–	–	–	–	(34)	(9,822)	(9,856)	–	(9,856)
Contribution from minority shareholder	–	–	–	–	–	–	–	–	–	–	–	18,352	18,352
Interim dividend paid	–	–	–	–	–	–	–	–	(9,881)	–	(9,881)	–	(9,881)
	195	790	–	66	–	–	–	–	(9,981)	(9,822)	(18,752)	18,352	(400)
At 1 January 2005	32,935	294,144	1,147	6,332	6,061	4,703	3,824	–	301,392	–	650,538	800	651,338
Effect of changes in accounting policies *(note 3)*	–	–	–	–	(6,061)	–	(3,824)	–	10,956	–	1,071	–	1,071
At 1 January 2005, as restated	32,935	294,144	1,147	6,332	–	4,703	–	–	312,348	–	651,609	800	652,409

Consolidated Statement of Changes in Equity:

For the year ended 31 December 2005

	Share capital HK$'000	Share premium account HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 *(note (a))*	Capital reserve HK$'000 *(note (b))*	Capital redemption reserve HK$'000	Investment properties revaluation reserve HK$'000	Hedging reserve HK$'000	Accumulated profits HK$'000	Dividend reserve HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
Gain on fair value changes of derivatives under 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
Net profit for the year	–	–	–	–	–	–	–	–	67,433	–	67,433	–	67,433
Total income recognised 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

Notes:

(a) Pursuant to the relevant laws and regulations in The People's Republic of China (the "PRC"), a portion of the profits of the Group's subsidiaries in the PRC and Macau has been transferred to reserve funds which are restricted as to use.

(b) The capital reserve comprises HK$8,588,000 in respect of negative goodwill offset by HK$2,527,000 in respect of goodwill at 31 December 2004. The capital reserve has been transferred to accumulated profits on 1 January 2005 (see note 3).

Consolidated Cash Flow Statement:

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	**76,614**	51,309
Adjustments for:		
(Write back) allowance for inventory obsolescence	**(866)**	2,943
Allowance for bad and doubtful debts	**2,674**	5,938
Amortisation of prepaid lease payments	**1,327**	1,528
Finance costs	**26,041**	24,360
Share of results of jointly controlled entities	**(1,153)**	(1,239)
Interest income	**(3,155)**	(2,167)
Increase in fair value of investment properties	**(22,400)**	–
Depreciation and amortisation of property, plant and equipment	**58,367**	42,599
(Gain) loss on disposal of property, plant and equipment	**(2,628)**	2,190
Gain on disposal of available-for-sale investments	**(642)**	–
Amortisation of trademarks	**692**	692
Impairment loss recognised in respect of property, plant and equipment	**747**	2,860
Proceeds on disposal of derivatives financial instruments	**1,071**	–
Operating cash flows before movements in working capital	**136,689**	131,013
Increase in prepaid lease payments	**(2,019)**	(1,150)
Increase in inventories	**(3,399)**	(60,214)
(Increase) decrease in trade receivables	**(24,256)**	4,730
Increase in bills receivable	**(24,507)**	(10,701)
Decrease in deposits, prepayments and other receivables	**24,643**	98,566
Decrease (increase) in amounts due from jointly controlled entities	**2,277**	(1,967)
Decrease in trade payables	**(43,818)**	(3,674)
Increase (decrease) in bills payable	**372**	(2,977)
Increase (decrease) in other payables and accruals	**12,019**	(773)
Increase (decrease) in amounts due to jointly controlled entities	**2,786**	(3,834)
Decrease in amount due to an associate	**(3)**	(3)
Provision for long service payments utilised	**(570)**	(559)
Cash generated from operations	**80,214**	148,457
Hong Kong Profits Tax paid	**–**	(2,489)
Overseas taxes paid	**(1,507)**	(4,108)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**78,707**	141,860

Consolidated Cash Flow Statement:

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (restated)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(76,986)**	(98,663)
Decrease (increase) in pledged bank deposit	**5,395**	(5,554)
Proceeds on disposal of property, plant and equipment	**10,292**	15,964
Interest received	**3,155**	2,167
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	**(37,175)**	(86,086)
FINANCING ACTIVITIES		
New bank loans raised	**130,000**	494,487
Contribution from minority shareholders	**–**	18,352
Exercise of share options	**1,920**	985
Repayment of bank borrowings	**(210,110)**	(393,157)
Dividends paid	**(26,653)**	(19,737)
Decrease in trust receipt loans	**(2,528)**	(15,598)
Interest paid	**(17,173)**	(13,835)
Bank charges	**(5,853)**	(6,879)
Factoring expenses	**(2,982)**	(3,635)
Interest paid on obligations under finance leases	**(33)**	(11)
Repayments of obligations under finance leases	**(12)**	(330)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(133,424)**	60,642
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(91,892)**	116,416
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**295,858**	179,635
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**67**	(193)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**204,033**	295,858
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**205,426**	299,018
Bank overdrafts	**(1,393)**	(3,160)
	204,033	295,858

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 address of the registered office and principal place of business of the Company are disclosed on page 93 to the annual report.

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

The principal activities of the Group are the manufacture, retailing and trading of garments.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the New HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the New HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. The Group has applied the relevant transitional provisions in HKFRS 3 from 1 January 2005. Goodwill previously recognised in reserves amounting to HK$2,527,000 has been transferred to the Group's accumulated profits on 1 January 2005. Comparative figures for 2004 have not been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(cont'd)*

Business combinations *(cont'd)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2005 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005 (of which negative goodwill of HK$8,588,000 was previously recorded in capital reserve), with a corresponding increase to accumulated profits.

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 "Interests in jointly controlled entities" allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted by 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. All share options are granted before 7 November 2002. Therefore, the change in accounting policy has had no effect on the results for the current or prior periods.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(cont'd)*

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

At 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investment securities classified under non-current assets of HK$13,793,000 were reclassified to available-for-sale investments on 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(cont'd)*

Financial instruments *(cont'd)*

Derivatives and hedging

In previous years, the gain or loss on a speculative forward contract is the foreign currency amount of the contract multiplied by the difference between the forward rate for the balance of the contract at the balance sheet date and the contracted forward rate. Where a forward contract is speculative the gain or loss should be credited or charged to the profit and loss account.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Group designates certain derivatives as hedging instruments to hedge against its exposure in relation to foreign currency forecast purchases. For cash flow hedges, changes in the fair value of the effective portion of hedging instruments are recognised initially in equity and 'recycled' into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in profit or loss.

The Group has applied the relevant transitional provisions in HKAS 39. For derivatives that are not held for hedging purposes, on 1 January 2005, the Group recognised the difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005, amounting to HK$1,071,000, in the Group's accumulated profits (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(cont'd)*

Financial instruments *(cont'd)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. As a result, the Group's bills receivable discounted with full recourse which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's bills receivable discounted with full recourse have not been derecognised. Instead, the related borrowings of HK$17,055,000 have been recognised on the balance sheet date. The relevant finance costs incurred in order to obtain such borrowings are included in the carrying amount of the borrowings on initial recognition and amortised over the terms of the borrowings using the effective interest method. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a leasehold land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment properties revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment properties revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated profits (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(cont'd)*

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC)-Interpretation 21 "Income taxes – recovery of revalued non-depreciable assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC)-Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 on the results for the current year and prior year are as follows:

	2005	2004
	HK$'000	HK$'000
Gain arising from fair value changes of investment properties	**22,400**	–
Increase in deferred taxation liabilities in relation to investment properties	**(3,920)**	–
Gains arising from fair value changes of derivative financial instruments	**(1,071)**	–
Increase in net profit for the year	**17,409**	–

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(cont'd)*

The cumulative effect of the application of the New HKFRSs on the balance sheet as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	**Adjustments**	**As at 31 December 2004 (restated)**	**Adjustments**	**As at 1 January 2005 (restated)**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items					
ASSETS AND LIABILITIES					
Impact on HKAS 17					
Property, plant and equipment	399,872	(44,928)	354,944	–	354,944
Prepaid lease payments	–	44,928	44,928	–	44,928
Impact on HKAS 39					
Investments in securities	13,793	–	13,793	(13,793)	–
Available-for-sale investments	–	–	–	13,793	13,793
Derivatives	–	–	–	1,071	1,071
Impact of HK(SIC) – INT 21					
Deferred tax liabilities	2,012	812	2,824	–	2,824
RESERVES					
Capital reserve	6,061	–	6,061	(6,061)	–
Investment properties revaluation reserve	4,636	(812)	3,824	(3,824)	–
Accumulated profits	301,392	–	301,392	10,956	312,348
Minority interests	–	800	800	–	800
MINORITY INTERESTS	800	(800)	–	–	–

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(cont'd)*

The financial effects of the application of New HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	Investment properties revaluation reserve HK$
As originally stated	3,359
Adoption of HK(SIC) – INT 21 deferred tax liabilities	(588)
As restated	2,771

The Group has not early applied the following new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005 (the "2006 New Standards").

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2006.
3 Effective for accounting periods beginning on or after 1 December 2005.
4 Effective for accounting periods beginning on or after 1 March 2006.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(cont'd)*

The Group has commenced considering the potential impact of the 2006 New Standards, and determined that except for HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts", the management anticipates the application of the 2006 New Standards will have no material impact on the Group's financial statements.

HKAS 39 and HKFRS 4 (Amendments) requires financial guarantee contract which is within the scope of HKAS 39 to be measured at fair value on initial recognition. The management determined that it is not yet in a position to reasonably ascertain how the amendment may affect the results of operations and financial position of the Group are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with HKFRSs 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 its subsidiaries.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Interests in associates

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Revenue recognition

Revenue is measured at the fair value of the consideration receive or receivable.

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

Rental income is recognised on a straight-line basis over the lease terms.

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.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Commission and management fee 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 accumulated depreciation and amortisation and impairment losses, if any.

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.

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

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

4. 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 disposals. 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

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets 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 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 with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the 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 by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Taxation *(cont'd)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases 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 the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit scheme are charged as expenses as they fall due.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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 classified into three categories, including financial assets at fair value through profit or loss, 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Financial instruments *(cont'd)*

Financial assets (cont'd)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above).

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Financial instruments *(cont'd)*

Financial liabilities and equity (cont'd)

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

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognised in equity and "recycled" into the income statement when the hedged item affects profit or loss. The ineffective portion is recognised immediately in profit or loss.

For the hedge of a forecast transaction that subsequently results in the recognition of a non-financial asset, the associated gains or losses that were previously recognised directly in equity removed from the equity and included in the initial cost of non-financial asset.

Derivatives that do not qualify to 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.

For financial liabilities, they are removed from the Group's balance sheet (i.e. 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 received or receivable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Equity-settled share-based payment transactions

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.

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

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

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

5. 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

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivable, other receivables, bank balances, trade payables, bills payable, other payables and accruals 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.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases. Certain bank balances including approximately HK$66,137,000 (2004: HK$64,423,000), HK$14,476,000 (2004: HK$5,460,000), HK$2,502,000 (2004: HK$202,000) were denominated in United States Dollars, British Pounds and Euro Dollars which were derived from foreign currency sales.

In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency purchases in accordance with the Group's risk management policies. For foreign currency sales, the Group currently does not have a hedging policy but will consider hedging should the need arise.

Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on it's variable interest rate bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 31.

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.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those 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 Group's bank balances are deposited with banks of high credit rating and the Group has limited exposure to any single financial institution.

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

7. TURNOVER

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

	2005 HK$'000	2004 HK$'000
Manufacture and trading of garments	**1,856,872**	1,769,026
Retailing of garments	**251,625**	194,992
	2,108,497	1,964,018

8. 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.

Income statement for the year ended 31 December 2005

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
TURNOVER			
External sales	1,849,957	258,540	2,108,497
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 results of jointly controlled entities			1,153
Profit before taxation			76,614
Taxation			(9,181)
Profit for the year			67,433

Note: The inter-segment sales were made according to the published prices and conditions offered to major customers of the Group, except that a longer credit period was usually granted.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

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

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	1,209,917	139,313	1,349,230
Unallocated corporate assets			81,907
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 recognised in respect of 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
(Write back) allowance for inventory obsolescence*	28	(894)	(866)

* Obsolete inventory allowance write back when the relevant inventory was sold.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

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

Income statement for the year ended 31 December 2004

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000 (restated)
TURNOVER			
External sales	1,762,753	201,265	1,964,018
Inter-segment sales	6,273	(6,273)	–
Total	1,769,026	194,992	1,964,018
RESULT			
Segment result	79,391	(7,128)	72,263
Other income	2,104	63	2,167
	81,495	(7,065)	74,430
Finance costs			(24,360)
Share of results of jointly controlled entities			1,239
Profit before taxation			51,309
Taxation			(5,461)
Profit for the year			45,848

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

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

Balance sheet as at 31 December 2004

	Manufacture and trading of garments HK$'000	Retailing of garments HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	1,295,010	179,126	1,474,136
Unallocated corporate assets			6,435
Consolidated total assets			1,480,571
LIABILITIES			
Segment liabilities	280,997	38,003	319,000
Unallocated corporate liabilities			510,233
Consolidated total liabilities			829,233

Other information for the year ended 31 December 2004

	Manufacture and trading of garments HK$'000 (restated)	Retailing of garments HK$'000	Consolidated HK$'000 (restated)
Additions to property, plant and equipment	80,577	18,399	98,976
Depreciation of property, plant and equipment	36,596	6,003	42,599
Impairment loss recognised in respect of property, plant and equipment	–	2,860	2,860
Loss on disposal of property, plant and equipment	1,503	687	2,190
Amortisation of trademarks	692	–	692
Allowance for bad and doubtful debts	5,938	–	5,938
Allowance for inventory obsolescence	–	2,943	2,943

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(cont'd)*

(b) Geographical segments

The Group's operations are located in 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	
	2005	2004
	HK$'000	HK$'000
USA	**1,431,675**	1,329,009
Europe	**298,100**	250,857
Greater China	**348,875**	364,484
Others	**29,847**	19,668
	2,108,497	1,964,018

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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000 (restated)
USA	**160,348**	140,783	**1,063**	375
Europe	**11,430**	18,061	**685**	862
Greater China	**1,254,140**	1,318,846	**74,985**	97,733
Others	**2,682**	2,000	**253**	6
	1,428,600	1,479,690	**76,986**	98,976

9. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	**17,173**	13,835
Finance leases	**33**	11
Factoring expenses	**2,982**	3,635
Bank charges	**5,853**	6,879
	26,041	24,360

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of nine (2004: 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	2,567	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
Wong Shiu Hoi, Peter	160	–	–	–	160
Leung Hok Lim	80	–	–	–	80
Woo King Wai	80	–	–	–	80
Total for 2005	**800**	**13,692**	**59**	**2,400**	**16,951**

10. 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	600	5,762
Hui Yip Wing	80	–	–	–	80
Wong Shing Loong, Raymond	80	1,885	12	220	2,197
So Siu Hang, Patricia	80	1,950	12	230	2,272
Ip Weng Kun	80	2,405	12	280	2,777
Chan Wah Tip, Michael	80	–	–	–	80
Wong Shiu Hoi, Peter	36	–	–	–	36
Leung Hok Lim	13	–	–	–	13
Woo King Wai	80	–	–	–	80
Total for 2004	609	11,310	48	1,330	13,297

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

11. EMPLOYEE'S EMOLUMENTS

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 10 above.

In 2004, 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 10 above. The salaries and other benefits, and contributions to retirement benefits scheme of the remaining one individual amounted to HK$1,890,000 and HK$12,000 respectively.

12. TAXATION

	2005	2004
	HK$'000	HK$'000
		(restated)
Current tax charge:		
Hong Kong	**1,386**	980
Other jurisdictions	**8,315**	7,010
Overprovision in prior years:		
Hong Kong	**(663)**	(3,417)
Other jurisdictions	**(1,336)**	–
	7,702	4,573
Deferred taxation *(note 32)*	**1,479**	888
	9,181	5,461

The Hong Kong Inland Revenue Department ("IRD") recently initiated a tax audit on certain group companies for the years of assessment from 1999/2000 to 2004/2005. 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 be statutorily time – barred after 31 March 2006) 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 preliminary 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.

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.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income taxes at tax rates ranging from 12% to 33%.

12. TAXATION *(cont'd)*

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

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	**76,614**	51,309
Tax at the income tax rate of 17.5%	**13,407**	8,979
Effect of different tax rates of subsidiaries operating in other jurisdictions	**876**	1,213
Tax effect of share of results of jointly controlled entities	**(202)**	(217)
Tax effect of income not taxable for tax purpose	**(12,830)**	(14,262)
Tax effect of expenses not deductible for tax purpose	**2,110**	4,917
Tax effect of tax losses not recognised	**12,266**	12,356
Utilisation of tax losses previously not recognised	**(4,447)**	(4,108)
Overprovision in prior years	**(1,999)**	(3,417)
Taxation for the year	**9,181**	5,461

13. PROFIT FOR THE YEAR

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

	2005 HK$'000	2004 HK$'000 (restated)
Cost of inventories recognised as expenses	**1,507,171**	1,405,474
Depreciation and amortisation		
Owned assets	**57,976**	42,221
Leased assets	**391**	378
Amortisation of intangible assets (included in selling and distribution expenses)	**692**	692
Amortisation of prepaid lease payments	**1,327**	1,528
	60,386	44,819
Allowance for bad and doubtful debts (included in selling and distribution cost)	**2,674**	5,938
(Write back) allowance for inventory obsolescence* (included in cost of sales)	**(866)**	2,943
Auditors' remuneration	**3,274**	2,859
Operating lease rentals in respect of equipment	**65**	221
Minimum lease payments in respect of land and buildings	**68,114**	59,676
Staff costs (including directors' remuneration - note 10)		
Wages, salaries and bonuses	**292,785**	267,853
Retirement benefits contributions	**5,647**	3,365
Less: Forfeited contributions	**(85)**	(69)
	5,562	3,296
	298,347	271,149
Net foreign exchange loss (gain)	**4,232**	(4,601)
Temporary textile quota expenses	**3,779**	2,112
(Gain) loss on disposal of property, plant and equipment	**(2,628)**	2,190
Gain on disposal of available-for-sale investments	**(642)**	–
Gain on financial derivatives	**(23,445)**	(1,664)
Gross rental income from investment properties	**(8,201)**	(4,675)
Less: Outgoings for investment properties rented out	**1,485**	1,369
Net rental income	**(6,716)**	(3,306)
Sub-letting rental income (included in selling and distribution expenses)	**(3,339)**	(3,337)
Interest income	**(3,155)**	(2,167)
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**247**	202

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

14. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Additional final dividend paid for 2003 arising from shares issued under option scheme	–	34
Interim, paid – HK3 cents per ordinary share (2004: HK3 cents)	9,995	9,881
Proposed final – HK5 cents per ordinary share (2004: HK5 cents)	16,658	16,658
	26,653	26,573
Dividends paid	26,653	19,703

The final dividend of HK5 cents (2004: 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.

15. EARNINGS PER SHARE

The basic and diluted earnings per share for the year ended 31 December 2005 together with the comparative figures for 2004 are calculated as follows:

	2005 HK$'000	2004 HK$'000
Profit for the purpose of basic and diluted earnings per share	67,433	72,400
	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	332,318,673	328,635,730
Effect of dilutive potential ordinary shares assuming exercise of share options	3,426,494	6,069,967
Weighted average number of ordinary shares for the purpose of diluted earnings per share	335,745,167	334,705,697

The following table summarise the impact on both basic and diluted earnings per share for both years as a result of application of New HKFRSs:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 cents	2004 cents	2005 cents	2004 cents
Figures before adjustments	15.1	22.0	14.9	21.6
Adjustments arising from changes in accounting policies *(see note 3)*	5.2	–	5.2	–
	20.3	22.0	20.1	21.6

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings (Hong Kong) HK$'000	Buildings (elsewhere) HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1 January 2004								
– As originally stated	33,401	218,145	11,123	30,246	219,087	70,421	22,017	604,440
– Reclassified to prepaid lease payments	(8,897)	(42,167)	–	–	–	–	–	(51,064)
– As restated	24,504	175,978	11,123	30,246	219,087	70,421	22,017	553,376
Additions	–	11,412	39,954	15,943	18,949	8,231	4,487	98,976
Transfers	–	13,196	(41,464)	–	28,268	–	–	–
Transfer to investment properties *(note 18)*	(4,604)	–	–	–	–	–	–	(4,604)
Disposals	–	(6,136)	–	(5,430)	(25,284)	(13,082)	(3,811)	(53,743)
Exchange realignment	–	–	–	975	648	105	186	1,914
At 31 December 2004	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**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2004								
– As originally stated	5,386	31,345	–	16,397	110,630	54,997	15,456	234,211
– Reclassified to prepaid lease payments	(946)	(3,236)	–	–	–	–	–	(4,182)
– As restated	4,440	28,109	–	16,397	110,630	54,997	15,456	230,029
Provided for the year	453	6,304	–	7,755	21,586	4,257	2,244	42,599
Transfer to investment properties *(note 18)*	(357)	–	–	–	–	–	–	(357)
Impairment loss recognised in the income statement	–	–	–	–	1,000	1,860	–	2,860
Eliminated on disposals	–	(1,133)	–	(4,722)	(15,468)	(10,967)	(3,299)	(35,589)
Exchange realignment	–	–	–	692	593	33	115	1,433
At 31 December 2004	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**
NET BOOK VALUES								
At 31 December 2005	**14,966**	**169,045**	**6,238**	**9,056**	**134,205**	**27,735**	**10,082**	**371,327**
At 31 December 2004	15,364	161,170	9,613	21,612	123,327	15,495	8,363	354,944

16. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

Included in buildings (elsewhere) were properties in the PRC with an aggregate amount of HK$4,500,000 (2004: HK$5,391,000), the title of which has been kept by the court in the PRC to secure the Group's application on the freeze of assets of its agent to recover the amount owed by the agent to the Group.

	2005	2004
	HK$'000	HK$'000
Buildings in Hong Kong:		
Medium term leases	**14,966**	15,364
Buildings outside Hong Kong:		
Long term leases	**–**	1,999
Medium term leases	**169,045**	159,171
	184,011	176,534

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	Over the lease terms
Plant and equipment	9% to 20%
Furniture and fixtures	9% to 25%
Motor vehicles	9% to 25%

The net book value of the motor vehicles includes an amount of HK$811,000 (2004: HK$910,000) in respect of assets held under finance leases.

During the year, the directors have reassessed the recoverable amount of the medium-term leasehold buildings situated outside Hong Kong and recognised an impairment loss of approximately HK$747,000 with reference to the market price.

17. PREPAID LEASE PAYMENTS

	2005 HK$'000	2004 HK$'000
The Group's prepaid lease payments comprise:		
Medium-term leasehold land in Hong Kong	**6,169**	6,207
Medium-term leasehold land outside Hong Kong	**40,115**	38,721
	46,284	44,928
Analysed for reporting purposes as:		
Non-current asset	**44,957**	43,538
Current asset	**1,327**	1,390
	46,284	44,928

18. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2004	34,500
Transfers from property, plant and equipment at carrying amount	4,247
Transfers from prepaid lease payments	1,576
Revaluation surplus recognised in equity	1,277
At 31 December 2004	41,600
Increase in fair value recognised in the income statement	22,400
At 31 December 2005	**64,000**

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date 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. As at 31 December 2005, the carrying amount of such property interests amounted to HK$64,000,000 (31 December 2004: HK$41,600,000).

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

19. INTANGIBLE ASSETS

	Trade marks
	HK$'000
COST	
At 1 January 2004, 31 December 2004, 1 January 2005 and 31 December 2005	6,917
ACCUMULATED AMORTISATION	
At 1 January 2004	1,556
Provided for the year	692
At 31 December 2004	2,248
Provided for the year	692
At 31 December 2005	2,940
NET BOOK VALUES	
At 31 December 2005	**3,977**
At 31 December 2004	4,669

The amount is amortised over 10 years.

20. INTERESTS IN ASSOCIATES

	2005	2004
	HK$'000	HK$'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 amounts approximate to their fair values.

20. INTERESTS IN ASSOCIATES *(cont'd)*

Details of the Group's associates at 31 December 2005 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
Shenyang Sherman–Theme Fashion Limited	Incorporated	PRC	22.5	Inactive

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

	2005	2004
	HK$'000	HK$'000
Total assets	**–**	–
Total liabilities	**(1,569)**	(1,566)
Net liabilities	**(1,569)**	(1,566)
Group's share of net assets of associates	**–**	–
Revenue	**–**	–
Loss for the year	**(3)**	(3)
Group's share 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:

	2005	2004
	HK$'000	HK$'000
Unrecognised share of losses of associates for the year	**1**	1
Accumulated unrecognised share of losses of associates	**1,404**	1,403

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 HK$'000	2004 HK$'000
Cost of unlisted investments in jointly controlled entity	**9,467**	6,486
Share of post-acquisition profits	**5,228**	4,075
	14,695	10,561

The amounts due to jointly controlled entities aged within 90 days.

The amounts due from and to jointly controlled entities are unsecured, interest-free and is repayable on demand.

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

At 31 December 2005, the Group had interests in the following jointly controlled entities:

Name	Form of business structure	Place of registration and operations	Percentage of Ownership interest %	Percentage of Voting power %	Percentage of Profit sharing %	Principal activities
Hangzhou Dalifu Silk Finishing Co., Ltd.	Incorporated	PRC	51	50	51	Dyeing, printing and sandwashing of fabrics
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 be mutually agreed by the Group and the other significant shareholder. Therefore, Suzhou High is classified as a jointly controlled entity of the Group.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(cont'd)*

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:

	2005	2004
	HK$'000	HK$'000
Current assets	**29,126**	24,240
Non-current assets	**20,966**	19,000
Current liabilities	**21,278**	22,532
Group's share of net assets of jointly controlled entities	**14,695**	10,561
Income	**65,617**	84,261
Expenses	**63,356**	81,674
Group's share of results of jointly controlled entities for the year	**1,153**	1,239

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprises:

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

The above unlisted investments represent investments in unlisted equity securities issued by a private entity incorporated in the 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.

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

23. INVESTMENTS IN SECURITIES

Investment securities as at 31 December 2004 comprises:

	HK$'000
Unlisted equity investments, at cost	14,118
Less: Impairment loss recognised	(325)
	13,793

Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to available-for-sale investments under HKAS 39 (see note 3 for details).

24. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**101,602**	118,384
Work in progress	**128,654**	83,874
Finished goods	**102,795**	126,528
	333,051	328,786

Included above are raw materials of approximately HK$12,394,000 (2004: HK$42,745,000) and finished goods of approximately HK$57,885,000 (2004: HK$71,562,000) which are carried at net realisable value.

25. 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:

	2005	2004
	HK$'000	HK$'000
Within 90 days	**248,232**	234,313
91 to 180 days	**14,014**	7,993
181 to 360 days	**4,824**	5,645
Over 360 days	**5,681**	3,218
	272,751	251,169

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

26. 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 at market rate 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.

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

27. DERIVATIVES

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

Cash flow hedges:
The aggregate notional amount of the outstanding forward contracts at 31 December 2005 was HK$465 million for Renminbi at exchange rates ranging from 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 2005, a fair value gain of 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 2005. The fair values are determined based on the quoted prices provided by financial institutions.

28. CERTIFICATE OF DEPOSITS

	2005 HK$'000	2004 HK$'000
Unlisted certificate of deposits, at market value	–	10,000

29. TRADE PAYABLES

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

	2005 HK$'000	2004 HK$'000
Trade payables:		
Within 90 days	126,471	156,408
91 to 180 days	4,973	17,141
181 to 360 days	6,807	13,009
Over 360 days	10,331	11,113
	148,582	197,671
Accrued purchases	23,675	18,404
	172,257	216,075

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

30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**255**	294	**222**	262
In the second year	**305**	205	**290**	191
In the third to fifth years, inclusive	**–**	71	**–**	71
	560	570	**512**	524
Less: Future finance charges	**(48)**	(46)	**–**	–
Present value of lease obligations	**512**	524	**512**	524
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(222)**	(262)
Amount due for settlement after 12 months (shown under non-current liabilities)			**290**	262

The Group leases certain of its motor vehicles. The average lease term is one to three years. For the year ended 31 December 2005, the average effective borrowing rate was 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.

31. BANK BORROWINGS

	2005	2004
	HK$'000	HK$'000
Bank overdrafts	1,393	3,160
Trust receipt loans	1,750	4,278
Bank loans	365,580	445,690
	368,723	453,128
Analysed as:		
Secured	36,528	–
Unsecured	332,195	453,128
	368,723	453,128
The maturity profile of the above borrowings is as follows:		
On demand or within one year	305,723	345,128
More than one year, but not exceeding two years	60,000	54,000
More than two years, but not exceeding five years	3,000	54,000
	368,723	453,128
Less: Amounts due within one year shown under current liabilities	(305,723)	(345,128)
Amounts due after one year shown under non-current liabilities	63,000	108,000

All the Group's borrowings are variable rate borrowings which carry interest at 3.56% to 7.75% (2004: 1.37% to 3.04%). Interest is repriced every six months.

The Group's borrowings amounting to approximately HK$217,269,000 (2004: HK$303,216,000), HK$16,346,000 (2004: HK$90,566,000), HK$134,235,000 (2004: HK$59,346,000) and HK$873,000 (2004: nil) were denominated in Hong Kong Dollars, Renminbi, United States Dollars and British Pounds respectively.

At 31 December 2005, certain bank loans were secured by bank deposits of HK$159,000 (2004: HK$5,554,000), bills receivable of HK$17,055,000 (2004: nil) and trade receivables of HK$98,185,000 (2004: HK$57,449,000).

32. DEFERRED TAXATION

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

	Deferred tax assets					Deferred tax liabilities		
	Unrealised profit arising on intra-group transactions	Bad and doubtful debts	Allowance on obsolete inventories	Unrealised exchange losses	Total	Accelerated tax depreciation	Revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004, as originally stated	(1,769)	–	–	–	(1,769)	2,012	–	2,012
Effects of changes in accounting policies *(note 3)*	–	–	–	–	–	–	588	588
At 1 January 2004, as restated	(1,769)	–	–	–	(1,769)	2,012	588	2,600
Charge to income statement for the year	888	–	–	–	888	–	–	–
Charge to equity for the year	–	–	–	–	–	–	224	224
At 31 December 2004 and 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	**(693)**	**(88)**	**(845)**	**(911)**	**(2,537)**	**1,282**	**4,732**	**6,014**

The ultimate realisation of these deferred tax assets depend principally on Taiwan segment achieving profitability and generating sufficient taxable profits to utilise the underlying deferred tax assets. Based on the taxable profit and loss projections of this business segment, it is probable that the Group can fully utilise the deferred tax assets recognised within the utilisation periods. 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 resulting projected taxable profits of these businesses.

The Group has tax losses arising in Hong Kong of HK$825,138,000 (2004: HK$834,278,000) and tax losses arising in overseas of HK$226,130,000 (2004: HK$172,310,000) for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

33. PROVISION FOR LONG SERVICE PAYMENTS

	HK$'000
At 1 January 2004	3,153
Amount utilised during the year	(559)
At 31 December 2004	2,594
Amount utilised during the year	(570)
At 31 December 2005	**2,024**

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 up to the Group to the balance sheet date.

34. SHARE CAPITAL

	Number of shares '000	**Amount** HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2004, 31 December 2004, 1 January 2005 and 31 December 2005	1,000,000	100,000
Issued and fully paid:		
At 1 January 2004	327,402	32,740
Exercise of share options	1,950	195
At 31 December 2004 and 1 January 2005	329,352	32,935
Exercise of share options *(Note)*	3,800	380
At 31 December 2005	**333,152**	**33,315**

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

Note: During the year, the subscription rights attaching to 3,800,000 share options were exercised at the subscription price of HK$0.505 per share, resulting in the issue of 3,800,000 shares of HK$0.10 each for a total cash consideration of approximately HK$1,919,000.

35. SHARE OPTION SCHEMES

(A) Share option schemes of the Company

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

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

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

At the balance sheet date, the Company had 2,140,000 share options outstanding, which represented approximately 0.6% 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 2,140,000 additional ordinary shares of the Company for a cash consideration of approximately HK$1,081,000 (before issue expenses).

35. SHARE OPTION SCHEMES *(cont'd)*

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

The following share options were outstanding during the year:

			Number of share options						
Name or category of participant	Date of grant	Exercise price HK$	At 1 January 2004	Exercised during the year	Lapsed during the year	At 31 December 2004 and 1 January 2005	Exercised during the year	Lapsed during the year	At 31 December 2005
Directors									
Lam Foo Wah	5 May 1999	0.505	3,800,000	–	–	3,800,000	(3,800,000)	–	–
Ip Weng Kun	5 May 1999	0.505	1,500,000	–	–	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	2,730,000	(1,950,000)	(360,000)	420,000	–	–	420,000
			9,750,000	(1,950,000)	(360,000)	7,440,000	(3,800,000)	(1,500,000)	2,140,000

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 shares immediately before the dates of which the options were exercised was HK$1.58 (2004: HK$1.18).

(4) All options are vested on the first day of respective exercisable period.

35. 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.

36. NON-CASH TRANSACTIONS

During the year ended 31 December 2004, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$313,000.

37. PLEDGE OF ASSETS

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

	2005	2004
	HK$'000	HK$'000
Trade receivables	**98,185**	57,449
Bills receivable	**17,055**	–
Bank deposits	**159**	5,554
	115,399	63,003

38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	2005	2004
	HK$'000	HK$'000
Bills discounted with recourse	**–**	30,594
Trade receivables factored with recourse	**–**	13,011
	–	43,605

39. OPERATING LEASES

(a) The Group as lessor

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

At 31 December 2005, the Group had contracted with tenants for the following future minimum lease payment:

	2005	2004
	HK$'000	HK$'000
Within one year	**9,552**	7,951
In the second to fifth years, inclusive	**7,264**	9,601
	16,816	17,552

(b) The Group as lessee

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

	2005	2004
	HK$'000	HK$'000
Land and buildings:		
Within one year	**37,980**	41,723
In the second to fifth years, inclusive	**59,905**	73,006
Over five years	**12,605**	17,995
	110,490	132,724
Equipment:		
Within one year	**148**	–
In the second to fifth years, inclusive	**392**	–
	540	–
	111,030	132,724

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

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following commitments at the balance sheet date:

(a) At the balance sheet date, the Group had entered into agreements for forward sales of foreign currencies contracts and the notional amounts are set out below.

	2005	2004
	HK$'000	HK$'000
United States dollars	–	77,390
Euro dollars	–	4,094
British pounds	–	16,478
	–	97,962

(b) Capital commitments

	2005	2004
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	**1,247**	1,680
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**94**	–

41. RELATED PARTY TRANSACTIONS

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

	2005	2004
	HK$'000	HK$'000
Purchases of raw materials and finished goods from jointly controlled entities	**47,611**	50,129
Sales of raw materials and finished goods to jointly controlled entities	**89**	3,958
Professional fees paid to Wilkinson & Grist *(note)*	**366**	165

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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2005 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
Cantabian Limited	Hong Kong	HK$2 Ordinary HK$2 Non-voting deferred	100 100	Investment holding
Dongguan Dalisheng Fashion Co., Ltd. (Formerly known as Dongguan Daliwai 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	PRC	RMB5,000,000	75	Garment retailing
Hangzhou High Fashion Knitwear Co., Ltd. *(Note 1)*	PRC	RMB3,000,000	100	Garment manufacturing

42. 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 Apparel Limited	British Virgin Islands/Hong Kong	US$1,000	100	Investment holding
High Fashion (BVI) Limited	British Virgin Islands/PRC	US$1	100	Product sourcing and development
High Fashion Garments, Inc.	USA	US$5,000	100	Marketing and garment trading
High Fashion (China) Co., Ltd. *(Note 1)*	PRC	US$14,600,00	100	Garment manufacturing and dyeing, printing and sandwashing of fabrics
High Fashion (FG) Limited	British Virgin Islands/PRC	US$1	100	Garment manufacturing
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
High Fashion Garments Management Limited	Hong Kong	HK$20 Ordinary HK$20 Non-voting deferred	100 100	Provision of management services
High Fashion Home Textiles Company Limited	Hong Kong	HK$2	100	Garment Trading
High Fashion International (USA) Inc.	USA	US$1,800	100	Investment holding

42. 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 (HZ) Limited	British Virgin Islands/PRC	US$1	100	Garment manufacturing
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
Theme Garments (Shenzhen) Company Limited	PRC	RMB10,000,000	75	Garment retailing and trading

42. 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 Fashion (Singapore) Pte. Ltd.	Singapore	S$100,000	75	Garment trading
Theme Industry Hangzhou Company Limited	PRC	US$2,000,000	75	Garment retailing and trading
The King Garment Limited	Hong Kong	HK$2	100	Garment trading
Theme International Holdings Limited ("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
Zhejiang Xinchang High Fashion Silk Co., Ltd. *(Note 1)*	PRC	US$6,000,000	100	Silk weaving

Notes:

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

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

The subsidiaries listed above are indirectly held by the Company.

The shares of Theme are listed on The Stock Exchange of Hong Kong Limited. The market value of Theme's shares held by the Group amounted to HK$97,824,000, as at 31 December 2005 (2004: HK$135,450,000).

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(cont'd)*

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 the end of the year.

43. SUBSEQUENT EVENTS

On 26 January 2006, two indirect subsidiaries of the Company in Hangzhou entered into an agreement with the 杭州工業項目推進領導小組辦公室 and 杭州市土地儲備中心 ("土地儲備中心") in relation to the relocation from Liuxia Street of Hangzhou City within 18 months from the agreement and would handover the land to 杭州市土地儲備中心 for sale by public auction. Advance payments of HK$21,307,000 for compensation and HK$12,856,000 for reimbursement removal expenses were received respectively in February 2006. In the event of such sale, 45% of the proceeds from the sale of land (after deduction of such advance payments) would be paid as compensation to the Group for the construction of the world's top class silk enterprise and world class apparel enterprise in Hangzhou.

On 30 March 2006, an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement with an independent third party for the acquisition of the trademark, the current retail network and part of the fixed and current assets and liabilities at the total consideration of not more than RMB22,000,000 (approximately HK$21,275,000). The acquisition is effective on 1 April 2006.

In the opinion of the directors, it is impracticable to disclose the carrying amounts and fair values of each class of assets, liabilities and contingent liabilities at the date of acquisition as the information with respect to the carrying amounts and fair values have not yet been finalised up to the date of issue of the financial statements.

Five Years 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

	1.1.2005 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	1.10.2000 to 30.9.2001 HK$'000
Turnover	**2,108,497**	1,964,018	1,917,911	2,173,480	2,325,666
Profit (loss) before taxation	**76,614**	51,309	35,264	(20,993)	51,726
Taxation	**(9,181)**	(5,461)	(1,998)	(2,192)	(6,621)
Profit (loss) for the year	**67,433**	45,848	33,266	(23,185)	45,105
Attributable to					
equity holders of					
the Company	**67,433**	72,400	33,266	(23,912)	44,389
Minority interests	**–**	(26,552)	–	727	716
	67,433	45,848	33,266	(23,185)	45,105

ASSETS AND LIABILITIES

	31.12.2005 HK$'000	31.12.2004 HK$'000 (restated)	31.12.2003 HK$'000 (restated)	31.12.2002 HK$'000 (restated)	30.9.2001 HK$'000 (restated)
Total assets	**1,431,137**	1,480,571	1,361,473	1,316,117	1,368,629
Total liabilities	**(724,995)**	(829,233)	(756,924)	(742,639)	(749,199)
	706,142	651,338	604,549	573,478	619,430

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 Director

Mr. Chan Wah Tip, Michael

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

Miss Chan Wai Wei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Westbroke Limited
Clarendon House
Church Street
Hamilton HM11
Bermuda

SUB-REGISTRAR AND TRANSFER AGENT IN HONG KONG

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
26/F., Wing On Centre
111 Connaught Road Central
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:–

2005 Final	13 April 2006
2005 Interim	16 September 2005
2004 Final	18 April 2005
2004 Interim	14 September 2004
2006 Annual General Meeting	6 June 2006
Closure of Register of Members	Period from 1 June 2006 to 6 June 2006

DIVIDENDS:–

2005 Final	HK 5 cents per share payable on 16 June 2006
2005 Interim	HK 3 cents per share paid on 19 October 2005
2004 Final	HK 5 cents per share paid on 10 June 2005
2004 Interim	HK 3 cents per share paid on 18 October 2004
Authorised Shares	1,000,000,000
Issued Shares	333,151,550 (as at 31 December 2005)
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