



High Fashion International limited

達利國際集團有限公司

(Incorporated in Bermuda with limited liability)



ANNUAL REPORT

2004



Mission Statement

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

C o n t e n t s

2	Chairman's Statement
4	Financial Highlights
5	Management Discussion and Analysis
9	Biographical Details of Directors and Senior Management
13	Report of the Directors
20	Report of the Auditors
21	Consolidated Income Statement
22	Consolidated Balance Sheet
24	Consolidated Statement of Changes in Equity
26	Consolidated Cash Flow Statement
28	Balance Sheet
29	Notes to the Financial Statements
65	Five Years Financial Summary
66	Corporate Information

Chairman's Statement



RESULTS

The Group's turnover for 2004 was HK\$1.96 billion, up 2% from 2003. Net profit attributable to shareholders was HK\$72.4 million, an increase of 118% over 2003.

The Board of Directors recommended a final dividend of 5 HK cents per share. Plus the interim dividend of 3 HK cents per share, the dividend for the whole year will be 8 HK cents per share, compared to 4 HK cents per share for 2003.

BUSINESS REVIEW

After two full years of deep and broad re-organization, streamlining our operations, renovation of our vertical production facilities and technologies, we have revitalized our entire group. We are more dynamic, competitive and responsive to consumer demand.

Our efforts in market diversification produced real result. Sales to the European market increased over 30% from 2003. We are now set to accelerate our business expansion in the European market with new products and intensified marketing activities.

Owing to generally sluggish demand for silk apparel, our sales in the US market were down 8%. Riding on our constantly improving competitiveness, we are taking solid steps to increase our turnover in the USA as a whole. August Silk accounted for 40% of our sales in the USA. We have reorganised the management of August Silk and expanded its sales force. We keep heightening our product integrity and identity. We expect August Silk's operation to turn around towards the latter part of this year.

To build our business organically, we have commenced necktie and home furnishing businesses. Our new production facilities and customer base provide us with excellent growth potential.

The hard work we put in Theme retail business gave rise to a turnaround. During the year, Theme increased its capital strength through new share subscription. Recognition of the Theme brand as an upper tier smart-casual fashion label for the career women in the Greater China has started to grow. The management of Theme is committed to deliver a return to its shareholders.



PROSPECTS

The silk apparel market in USA remains challenging. Building on our product integrity and identity we continue to create new niches to maintain and raise our leadership position in the silk apparel industry. The global textile and clothing quota system was abolished on 1 January 2005. We will continue to expand the US and European markets through sharpening our focus on promoting non-silk apparel as well as non-silk textile products.

We have achieved a turnaround in our retail business in the Greater China. As economy in the Greater China continues to expand, growth potential for our retail business is enormous.

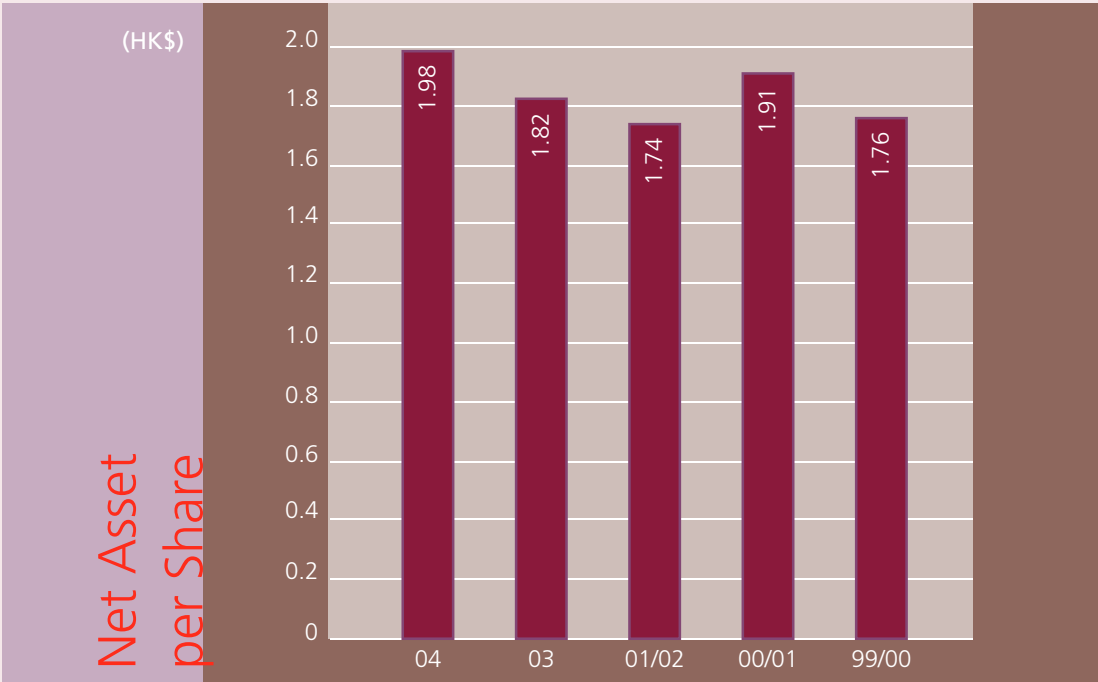
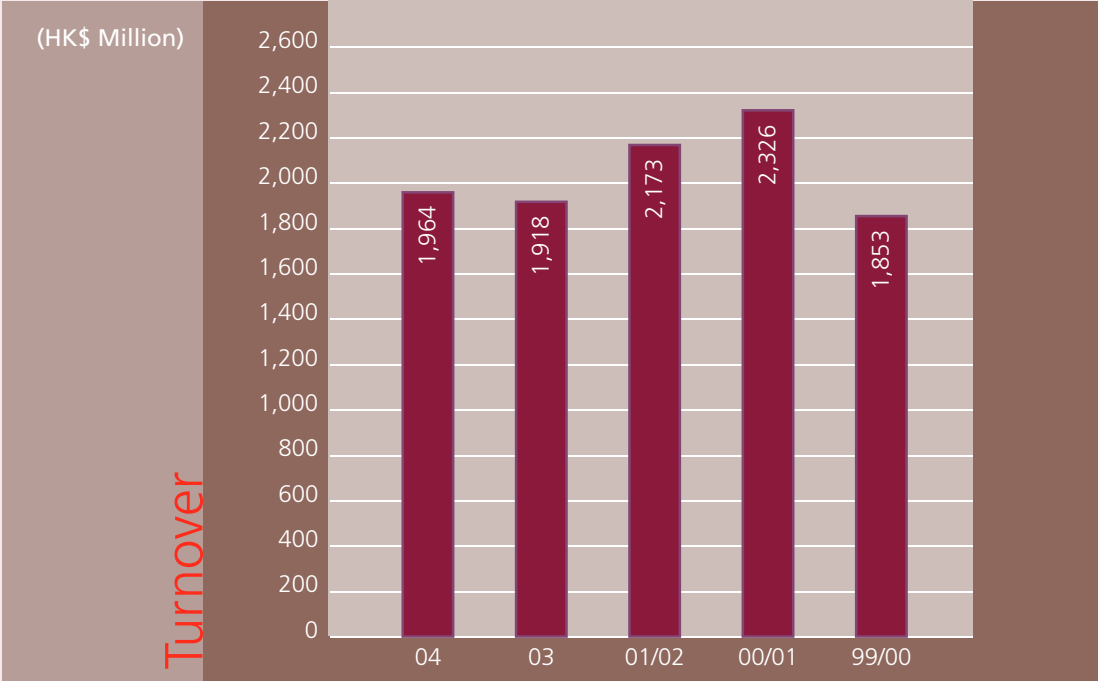
I want to take this opportunity to thank our shareholders, customers, suppliers, staff and my fellow Directors for their support.

Lam Foo Wah

Chairman

Hong Kong, 18 April 2005

Financial Highlights



Management Discussion and Analysis

RESULTS

Turnover for the year ended 31 December 2004 amounted to HK\$1.96 billion. Net profit attributable to shareholders for the year ended 31 December 2004 was HK\$72.4 million, compared with a reported profit of HK\$33 million of last year. Basic earnings per share was 22 HK cents. Net asset value per share was HK\$1.98.

REVIEW OF OPERATIONS

The segmental information is as follows:–

	2004	2003	2004	2003
	Turnover		Contribution	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing and trading	1,769,025	1,737,332	81,495	81,961
Retail	194,993	180,579	(7,065)	(21,813)
	1,964,018	1,917,911	74,430	60,148

The turnover and profit contribution of our core manufacturing and trading business remain stable. The retail business, under Theme, improved substantially in profit margin. The loss on retail was substantially reduced from HK\$22 million to HK\$7 million, after a special provision of HK\$8 million for Theme's uniform business. But for this special provision, Theme would have recorded a net operating profit of HK\$1 million.

AUGUST SILK



LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were approximately HK\$453 million as at 31 December 2004 compared to HK\$367 million in 2003. Our gearing ratio of non-current liabilities to shareholders' funds was 17% 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\$305 million at the balance sheet date compared to HK\$183 million in 2003. 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. The Group had no borrowings at fixed interest rates during the period.

The Group has no material contingent liabilities other than trade bills discounted in the ordinary course of business. Barring the pledge of trade receivables of certain subsidiaries of HK\$57 million and bank deposits of HK\$5.6 million, there were no other charges on the Group's assets.

The decrease in deposit, prepayments and other receivables at the balance sheet date was mainly due to the reduction in Chinese Value Added Tax receivables from HK\$125 million to HK\$17 million at the balance sheet date.

HUMAN RESOURCE

The total number of employees of the Group including jointly-controlled entities as at the balance sheet date was about 13,300. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group invested HK\$22 million in knitting and printing and dyeing machineries in Hangzhou, PRC and HK\$42 million in plant and machineries in Xinchang, PRC. Save this, there was no material capital expenditure during the year.

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Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LAM Foo Wah, aged 56, 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 2004, pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Mr. Lam is deemed to have 132,813,986 shares interest in the Company. The shares are beneficially owned by two discretionary trusts. Mr. Lam is regarded as a founder of the trusts.

Mr. IP Weng Kun, aged 58, is the deputy managing director of the Company and is principally responsible for the strategic planning of the Group's core operation in China, product development, sourcing and marketing. He joined the Group in 1982.

Mr. HUI Yip Wing, David, aged 55, joined the Group in 1996. Mr. Hui 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 55, 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 46, 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 52, 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, David, aged 60, 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 64, 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. He joined the Group in 2004.

Mr. LEUNG Hok Lim, Henry, FCPA (Aust.), CPA (Macau), FCPA (Practising), aged 70, is the founding and senior partner of PKF, Certified Public Accountants. Mr. Leung obtained his fellowship with Hong Kong Institute of Certified Public Accountants (formerly Hong Kong Society of Accountants) in 1973. He is a non-executive director of Beijing Hong Kong Exchange of Personnel Centre Limited and a number of listed companies. He joined the Group in 2004.

SENIOR MANAGEMENT

Mr. CHAN Chun Man, aged 50, is the Chief Executive 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. Mr. Chan joined the Group in 1992.

Miss CHAN Wai Wei, Cynthia, aged 32, 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 46, 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 a Director of High Fashion Group and responsible for the Marketing & Sales, Product Development and management of Factory's Production Operation of China.

Mr. CHEN Jian Fang, aged 43, graduated from the Faculty of International Politics of the People's University of China in 1985. He previously worked with Beijing Municipal Committee and Zhejiang Provincial Committee. In 1994, he joined Hangzhou Westlake High Fashion Industry Co., Ltd., a former joint venture company of High Fashion Group. He is currently the deputy executive general manager of the clothing department of High Fashion (China) Co., Ltd. (formerly known as Zhejiang High Fashion Kaidi Silk Co., Ltd.).

Mr. Furlan DANIELE, aged 48, 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 world wide production licensing, managing director of Lanificio di Follina, fabric mill of the Group, responsible for garment, accessories and shoes outsourcing department and also, for seven years, managing director of Benetton (Far East) in Hong Kong.

Biographical Details of Directors and Senior Management

Ms. Ellen DAWSON-BRUCKENTHAL, aged 48, is the Executive Vice President and Chief Merchandise Officer of August Silk. 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 in 1994.

Mr. FEI Jian Ming, aged 53, is a director of High Fashion Garments Company Limited and the general manager of High Fashion (China) Company Limited (formerly known as Zhejiang High Fashion Kaidi Silk 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. Donald HORNING, aged 58 is the President 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 President of August Silk, 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 54, is the general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. and 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 processed matriculated education and got the title of Economist in China. She has over 20 years' experience in textile industry with good experience in quality control in silk weaving production management.

Ms. LEUNG Suk Yin, Hilda, aged 48, 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 44, is the general manager of High Fashion Silk (Zhejiang) Co., Ltd. (formerly Zhejiang Xinchang High Fashion Silk Science & Technology Co., Ltd.) and a deputy general manager of Zhejiang Xinchang High Fashion Silk Co., Ltd. He is responsible for the operation and administration of two companies. 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 title of Economist in China. He has over 20 years' experience in textile industry with wide experience in product design and development, silk weaving production and management.

Mr. LIN Yuet Man, Edwin, aged 44, 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. Fritz PENWELL, aged 65, is the president of High Fashion Garments, Inc., and holds a master's degree in industrial psychology. He has over 35 years' experience in importing, sales and marketing in the fashion industry both in the USA and overseas. He was a principal in several New York knitwear and California/Japanese sportswear companies. He joined the Group in 1994.

Mr. RUAN Gen Yao, aged 44, 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 44, has completed tertiary education and is currently the general manager of Dongguan Daliwai Fashion Co., Ltd. He joined the High Fashion Group in 1996 and possesses over 15 years of experience in fashion management.

Ms. WONG Man Lui, Endora, aged 49, joined the Group in 1991. She has over 25 years' experience in the sales and merchandising of garments. She is a director of High Fashion Knitwear Overseas Limited and is responsible for the development of knit product, sample operation, management of all the knit garments and for the Group's China and offshore operation.

Mr. WONG Wai Kuen, aged 49, joined the Group in 2000. He is a director of High Fashion Garments Management Limited and is mainly responsible for banking, investor relations, human resources and administration of the Group. Prior to joining the Group, he had worked for an international bank for more than 20 years.

Mr. Nicholas E. G. WRIGHT, aged 50, 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 49, 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 34, is currently the deputy general manager of High Fashion (China) Co., Ltd. (formerly known as Zhejiang High Fashion Kaidi Silk 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.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

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 16 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 64.

An interim dividend of 3 HK cents per ordinary share was paid on 18 October 2004. 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 31 May 2005.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests 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 65. 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 13 and 14 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 29 and 31(A) to the financial statements, respectively.

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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem any of its listed securities during the year. Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2004, 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\$144,805,000, 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\$294,144,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE DONATIONS

During the year, the Group made charitable donations totalling HK\$369,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 31% of the total sales for the year and sales to the largest customer included therein amounted to 10%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

DIRECTORS

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

Executive directors:

Lam Foo Wah
Ip Weng Kun
Hui Yip Wing, David
Wong Shing Loong, Raymond
So Siu Hang, Patricia

Non-executive director:

Chan Wah Tip, Michael (redesignated on 25 October 2004)

Independent non-executive directors:

Woo King Wai, David
Wong Shiu Hoi, Peter (appointed on 19 July 2004)
Leung Hok Lim, Henry (appointed on 25 October 2004)

In accordance with the Company's bye-laws, Messrs Ip Weng Kun, Chan Wah Tip, Michael, Wong Shiu Hoi, Peter and Leung Hok Lim, Henry 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 directors re-affirmed his independent status with the Company as at 31 December 2004, 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 9 to 12 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 37 to the financial statements. Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, 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 pursuant to the Model Code contained in the Listing Rules, were as follows:

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

Name of director	Notes	Number of ordinary shares held capacity and nature of interests			Underlying shares (Note 4)	Total	Percentage of the Company's issued share capital
		Personal	Family	Other			
Lam Foo Wah	1, 2	–	–	129,013,986	3,800,000	132,813,986	40.33%
Ip Weng Kun	3	–	–	5,627,848	1,500,000	7,127,848	2.16%
Hui Yip Wing, David		–	2,652,007	–	–	2,652,007	0.81%
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000	1.09%
So Siu Hang, Patricia		2,104,309	–	–	720,000	2,824,309	0.86%

DIRECTORS' AND CHIEF EXECUTIVE'S 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	5	High Fashion Knitters Limited	Subsidiary	5,339,431	Through controlled corporations	35.60%

Notes:

- 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.
- 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.
- Mr. Ip Weng Kun is deemed to have an interest in 5,627,848 ordinary shares which are beneficially owned by Major Rank Holdings Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Ip is regarded as a founder of the trust.
- 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 the "Share Options" section below.
- These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

The interests of the directors in the share options of the Company are separately disclosed in note 31(A) to the financial statements.

Save as disclosed above, as at 31 December 2004, 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 the "Share Options" section below, at no time during the year ended 31 December 2004 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, 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 Division 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	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hinton Company Limited*	Beneficially owned	94,096,419	28.57%
High Fashion Charitable Foundation Limited*	Beneficially owned	34,917,567	10.67%
Excel Investments Ltd.	Beneficially owned	27,150,000	8.24%

* 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 Debenture".

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules prior to the accounting period commencing on 1 January 2005.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee, which comprises one non-executive director and three independent non-executive directors of the Company, has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the year ended 31 December 2004, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code throughout the year ended 31 December 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors throughout the year ended 31 December 2004 there was a sufficiency of public float the Company's securities as required under the Listing Rules.

AUDITORS

Ernst & Young, who acted as auditors of the Company for the past three financial periods, retired and did not offer themselves for re-appointment at 2004 annual general meeting and Deloitte Touche Tohmatsu were appointed auditors of the Company on 24 May 2004. 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, 18 April 2005

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 financial statements on pages 21 to 64 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 financial statements which give a true and fair view. In preparing 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 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 Statements of Auditing Standards 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 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, 18 April 2005

Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
TURNOVER	4	1,964,018	1,917,911
Cost of sales		(1,408,417)	(1,381,902)
Gross profit		555,601	536,009
Other operating income		27,195	24,726
Selling and distribution expenses		(234,329)	(238,308)
Administrative expenses		(271,177)	(262,279)
Impairment loss recognised in respect of property, plant and equipment		(2,860)	–
PROFIT FROM OPERATIONS	6	74,430	60,148
Finance costs	7	(24,360)	(26,370)
Share of results of jointly-controlled entities		1,441	1,486
PROFIT BEFORE TAXATION		51,511	35,264
Taxation	10	(5,663)	(1,998)
PROFIT BEFORE MINORITY INTERESTS		45,848	33,266
Minority interests		26,552	–
NET PROFIT FOR THE YEAR		72,400	33,266
EARNINGS PER SHARE	12		
Basic		22.0 cents	10.2 cents
Diluted		21.6 cents	10.1 cents

Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	399,872	370,229
Investment properties	14	41,600	34,500
Trademarks	15	4,669	5,361
Interests in associates	17	–	–
Interests in jointly-controlled entities	18	10,561	9,322
Investments in securities	19	13,793	13,793
Deferred tax asset	27	881	1,769
		471,376	434,974
CURRENT ASSETS			
Inventories	20	328,786	271,515
Trade receivables	21	251,169	261,837
Bills receivables		20,654	9,953
Deposits, prepayments and other receivables		91,737	190,303
Amounts due from jointly-controlled entities		2,277	310
Certificate of deposits	22	10,000	10,000
Pledged bank deposits	33	5,554	–
Bank balances and cash		299,018	182,581
		1,009,195	926,499
CURRENT LIABILITIES			
Trade payables and accrued purchases	23	216,075	219,749
Bills payables		5,640	8,617
Other payables and accruals		145,136	145,909
Amounts due to jointly-controlled entities	24	1,756	5,590
Amount due to an associate	24	605	608
Tax payables		951	2,975
Obligations under finance leases	25	262	274
Bank borrowings	26	345,128	343,782
		715,553	727,504
NET CURRENT ASSETS		293,642	198,995
TOTAL ASSETS LESS CURRENT LIABILITIES		765,018	633,969

Consolidated Balance Sheet

At 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
NON-CURRENT LIABILITIES			
Bank borrowings	26	108,000	23,400
Deferred tax liabilities	27	2,012	2,012
Provision for long service payments	28	2,594	3,153
Obligations under finance leases	25	262	267
		112,868	28,832
MINORITY INTERESTS			
		800	9,000
		651,350	596,137
CAPITAL AND RESERVES			
Share capital	29	32,935	32,740
Reserves		618,415	563,397
		651,350	596,137

The financial statements on pages 21 to 64 were approved and authorised for issue by the Board of Directors on 18 April 2005 and are signed on its behalf by:

Lam Foo Wah
DIRECTOR

Ip Weng Kun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium account	Translation reserve	Reserve funds	Capital reserve	Capital redemption reserve	Investment properties revaluation reserve	Accumulated profits	Dividend reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(note (a))	(note (b))					
At 1 January 2003	32,438	292,131	666	5,940	6,061	4,703	213	219,114	3,249	564,515
Surplus on revaluation of investment properties	-	-	-	-	-	-	3,146	-	-	3,146
Exchange realignment	-	-	193	-	-	-	-	-	-	193
Net gains not recognised in the income statement	-	-	193	-	-	-	3,146	-	-	3,339
Transfer from accumulated profits	-	-	-	326	-	-	-	(326)	-	-
Exercise of share options	302	1,223	-	-	-	-	-	-	-	1,525
Final dividend paid	-	-	-	-	-	-	-	-	(3,249)	(3,249)
Net profit for the year	-	-	-	-	-	-	-	33,266	-	33,266
Interim dividend paid	-	-	-	-	-	-	-	(3,259)	-	(3,259)
Proposed final dividend	-	-	-	-	-	-	-	(9,822)	9,822	-
	302	1,223	-	326	-	-	-	19,859	6,573	28,283
At 31 December 2003 and 1 January 2004	32,740	293,354	859	6,266	6,061	4,703	3,359	238,973	9,822	596,137
Surplus on revaluation of investment properties	-	-	-	-	-	-	1,277	-	-	1,277
Exchange realignment	-	-	288	-	-	-	-	-	-	288
Net gains not recognised in the income statement	-	-	288	-	-	-	1,277	-	-	1,565
Transfer from accumulated profits	-	-	-	66	-	-	-	(66)	-	-
Exercise of share options	195	790	-	-	-	-	-	-	-	985
Final dividend paid	-	-	-	-	-	-	-	(34)	(9,822)	(9,856)
Net profit for the year	-	-	-	-	-	-	-	72,400	-	72,400
Interim dividend paid	-	-	-	-	-	-	-	(9,881)	-	(9,881)
	195	790	-	66	-	-	-	62,419	(9,822)	53,648
At 31 December 2004	32,935	294,144	1,147	6,332	6,061	4,703	4,636	301,392	-	651,350

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium account	Translation reserve	Reserve funds	Capital reserve	Investment Capital redemption reserve	Investment properties revaluation reserve	Accumulated profits	Dividend reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (note (a))	HK\$'000 (note (b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reserves retained by:										
Company and subsidiaries	32,935	294,144	1,974	6,332	6,061	4,703	4,636	327,930	-	678,715
Jointly-controlled entities	-	-	(827)	-	-	-	-	(26,538)	-	(27,365)
At 31 December 2004	32,935	294,144	1,147	6,332	6,061	4,703	4,636	301,392	-	651,350
Company and subsidiaries	32,740	293,354	1,686	6,266	6,061	4,703	3,359	266,750	9,822	624,741
Jointly-controlled entities	-	-	(827)	-	-	-	-	(27,777)	-	(28,604)
At 31 December 2003	32,740	293,354	859	6,266	6,061	4,703	3,359	238,973	9,822	596,137

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 have been transferred to reserve funds which are restricted as to use.
- (b) The capital reserve comprises HK\$8,588,000 (2003: HK\$8,588,000) in respect of negative goodwill offset by HK\$2,527,000 (2003: HK\$2,527,000) in respect of goodwill.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	51,511	35,264
Adjustments for:		
Allowance/(written back) for inventory obsolescence	2,943	(129)
Allowance for bad and doubtful debts	5,938	475
Finance costs	24,360	26,370
Share of results of jointly-controlled entities	(1,441)	(1,486)
Interests income	(2,167)	(1,005)
Depreciation and amortisation of property, plant and equipment	44,127	40,384
Loss on disposal of property, plant and equipment	2,190	3,875
Amortisation of trademarks	692	692
Impairment loss recognised in respect of property, plant and equipment	2,860	–
Operating cash flows before movements in working capital	131,013	104,440
(Increase) decrease in inventories	(60,214)	41,910
Decrease (increase) in trade receivables	4,730	(39,229)
Increase in bills receivables	(10,701)	(9,953)
Decrease in deposits, prepayments and other receivables	98,566	4,940
(Increase) decrease in amounts due from jointly-controlled entities	(1,967)	2,780
(Decrease) increase in trade payables and accrued purchases	(3,674)	1,592
Decrease in bills payables	(2,977)	(951)
(Decrease) increase in other payables and accruals	(773)	11,236
(Decrease) increase in amounts due to jointly-controlled entities	(3,834)	5,590
Decrease in amount due to an associate	(3)	–
Decrease in provision for long service payments	(559)	(1,337)
Cash generated from operations	149,607	121,018
Hong Kong profits tax paid	(2,489)	(454)
Overseas taxes paid	(4,108)	(2,290)
NET CASH FROM OPERATING ACTIVITIES	143,010	118,274
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(99,813)	(57,657)
Proceeds on disposal of property, plant and equipment	15,964	4,864
Interest received	2,167	1,005
Decrease in amounts due from jointly-controlled entities	–	40
Capital contribution to a jointly-controlled entity	–	(80)
(Increase) decrease in pledged bank deposits	(5,554)	11,961
NET CASH USED IN INVESTING ACTIVITIES	(87,236)	(39,867)

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004	2003
	HK\$'000	HK\$'000
FINANCING ACTIVITIES		
New bank loans raised	494,487	386,815
Contribution from minority shareholders	18,352	–
Exercise of share options	985	1,525
Repayment of bank loans	(393,157)	(380,989)
Dividends paid	(19,737)	(9,757)
Decrease in trust receipt loans	(15,598)	(5,164)
Interests paid	(13,835)	(15,766)
Bank charges	(6,879)	(6,363)
Factoring expenses	(3,635)	(4,168)
Repayments of obligations under finance leases	(330)	(538)
Interest paid on obligations under finance leases	(11)	(73)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	60,642	(34,478)
NET INCREASE IN CASH AND CASH EQUIVALENTS	116,416	43,929
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	179,635	136,040
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	(193)	(334)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	295,858	179,635
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	299,018	182,581
Bank overdrafts	(3,160)	(2,946)
	295,858	179,635

Balance Sheet

At 31 December 2004

	<i>NOTES</i>	2004 HK\$'000	2003 HK\$'000
Non-current asset			
Interests in subsidiaries	16	537,283	516,742
Current assets			
Prepayments		145	160
Dividend receivable		–	20,000
Bank balances		80	59
		225	20,219
Current liabilities			
Amounts due to subsidiaries		43,534	23,748
Other payables and accruals		818	832
Tax payable		48	48
		44,400	24,628
Net current liabilities		(44,175)	(4,409)
		493,108	512,333
Capital and reserves			
Share capital	29	32,935	32,740
Reserves	30	460,173	479,593
		493,108	512,333

Lam Foo Wah
DIRECTOR

Ip Weng Kun
DIRECTOR

Notes to the Financial Statements

For the year ended 31 December 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Notes to the Financial Statements

For the year ended 31 December 2004

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

Goodwill *(cont'd)*

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary, associate or jointly controlled entity.

Negative goodwill arising on acquisitions after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Joint venture

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

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 bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

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 depreciation and amortisation and accumulated impairment losses, if any.

Construction in progress represents buildings under construction and plant and equipment in the process of installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation and amortisation are 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, at the following rates per annum:

Leasehold land	Over the lease terms
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%

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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

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

Trademarks

Trademarks are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice ("SSAP"), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of impairment loss is treated as a revaluation decrease under that SSAP.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment properties revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

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

Investments in securities

Investments in securities are recognised on a trade-date basis and initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December 2004

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

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 net 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.

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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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.

Retirement benefit costs

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

Financial instruments and derivatives

Currency swaps are used to manage the Group's exposure to foreign exchange rate fluctuation. It is the Group's policy not to enter into derivative transactions for speculative purposes. The notional amounts of currency swaps are recorded off balance sheet. Derivatives that qualify as hedges are valued on an equivalent basis to the underlying assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or positions.

Notes to the Financial Statements

For the year ended 31 December 2004

4. TURNOVER

Turnover represents the amount received and receivable for goods sold by the Group, less returns and allowances.

5. 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 2004

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	1,762,752	201,266	1,964,018
Inter-segment sales	6,273	(6,273)	–
Total	1,769,025	194,993	1,964,018
RESULT			
Segment result	79,391	(7,128)	72,263
Interests income	2,104	63	2,167
Profit from operations	81,495	(7,065)	74,430
Finance costs			(24,360)
Share of results of jointly controlled entities			1,441
Profit before taxation			51,511
Taxation			(5,663)
Profit before minority interests			45,848
Minority interests			26,552
Net profit for the year			72,400

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

For the year ended 31 December 2004

5. 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	332,497	38,003	370,500
Unallocated corporate liabilities			457,921
Consolidated total liabilities			828,421

Other information for the year ended 31 December 2004

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	81,727	18,399	100,126
Depreciation and amortisation of property, plant and equipment	38,124	6,003	44,127
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

Notes to the Financial Statements

For the year ended 31 December 2004

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

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

Income statement for the year ended 31 December 2003

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	1,737,332	180,579	1,917,911
RESULT			
Segment result	81,010	(21,867)	59,143
Interest income	951	54	1,005
Profit from operations	81,961	(21,813)	60,148
Finance costs			(26,370)
Share of results of jointly controlled entities			1,486
Profit before taxation			35,264
Taxation			(1,998)
Net profit for the year			33,266

Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(a) Business segments (cont'd)

Balance sheet as at 31 December 2003

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	1,270,995	85,763	1,356,758
Unallocated corporate assets			4,715
Consolidated total assets			<u>1,361,473</u>
LIABILITIES			
Segment liabilities	346,243	37,316	383,559
Unallocated corporate liabilities			372,777
Consolidated total liabilities			<u>756,336</u>

Other information for the year ended 31 December 2003

	Manufacture and trading of garments HK\$'000	Retailing of garments HK\$'000	Consolidated HK\$'000
Additions to property, plant and equipment	65,400	3,877	69,277
Depreciation and amortisation of property, plant and equipment	34,869	5,515	40,384
Amortisation of trademarks	692	–	692
Loss on disposal of property, plant and equipment	2,288	1,587	3,875

Notes to the Financial Statements

For the year ended 31 December 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(b) Geographical segments

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

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

	Sales revenue by geographical market	
	2004 HK\$'000	2003 HK\$'000
USA	1,329,009	1,444,907
Europe	250,857	186,426
Greater China	364,484	274,183
Others	19,668	12,395
	1,964,018	1,917,911

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
USA	141,664	137,516	375	1,717
Europe	18,061	24,441	862	249
Greater China	1,318,846	1,194,480	98,883	67,167
Other	2,000	5,036	6	144
	1,480,571	1,361,473	100,126	69,277

Notes to the Financial Statements

For the year ended 31 December 2004

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Depreciation and amortisation		
Owned assets	43,749	40,187
Leased assets	378	197
	44,127	40,384
Allowance for bad and doubtful debts	5,938	475
Allowance/(written back) for inventory obsolescence	2,943	(129)
Amortisation of trademarks (included in selling and distribution expenses)	692	692
Auditors' remuneration	2,859	2,761
Operating lease rentals in respect of equipment	221	119
Operating lease rentals in respect of land and buildings		
Minimum lease payments	59,676	42,264
Contingent rents	–	18,784
	59,676	61,048
Staff costs (including directors' remuneration – note 8)		
Wages, salaries and bonuses	267,853	284,799
Retirement benefits contributions	3,365	9,790
Less: Forfeited contributions	(69)	(203)
	3,296	9,587
	271,149	294,386
Net foreign exchange gains	(6,265)	(3,089)
Temporary textile quota expenses	2,112	12,663
Loss on disposal of property, plant and equipment	2,190	3,875
Gross rental income from investment properties	(4,675)	(3,158)
Less: Outgoings	1,369	1,112
Net rental income	(3,306)	(2,046)
Sub-letting rental income (included in selling and distribution expenses)	(3,337)	(5,003)
Interest income	(2,167)	(1,005)

Notes to the Financial Statements

For the year ended 31 December 2004

7. FINANCE COSTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	13,835	15,766
Finance leases	11	73
Factoring expenses	3,635	4,168
Bank charges	6,879	6,363
	24,360	26,370

8. DIRECTORS' REMUNERATION

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive	400	463
Non-executive	80	–
Independent non-executive	129	160
	609	623
Other emoluments:		
Executive		
Salaries, allowances and benefits in kind	12,640	13,183
Retirement benefits scheme contributions	48	48
	12,688	13,231
	13,297	13,854

Notes to the Financial Statements

For the year ended 31 December 2004

8. DIRECTORS' REMUNERATION (cont'd)

Their emoluments were within the following bands:

	THE GROUP	
	2004 No. of directors	2003 No. of directors
HK\$Nil to HK\$1,000,000	5	3
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–

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

9. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2003: five) were directors of the Company whose emoluments are included in the disclosures in note 8 above. The emoluments of the remaining one (2003: nil) individual was within the emolument band ranging from HK\$1,500,001 to HK\$2,000,000.

10. TAXATION

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong	980	220
Other jurisdictions	7,010	1,107
(Over)underprovision in prior years:		
Hong Kong	(3,417)	–
Other jurisdictions	–	215
	4,573	1,542
Deferred taxation (note 27)	888	421
	5,461	1,963
Share of taxation attributable to jointly-controlled entities	202	35
	5,663	1,998

Notes to the Financial Statements

For the year ended 31 December 2004

10. TAXATION (cont'd)

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 and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 12% to 33%.

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	51,511	35,264
Tax at the income tax rate of 17.5%	9,014	6,171
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,163	343
Tax effect of income not taxable for tax purpose	(14,262)	(15,825)
Tax effect of expenses not deductible for tax purpose	4,917	5,793
Tax effect of tax losses not recognised	12,356	12,763
Utilisation of tax losses previously not recognised	(4,108)	(7,462)
Over (underprovision) in prior years	(3,417)	215
Taxation for the year	5,663	1,998

Notes to the Financial Statements

For the year ended 31 December 2004

11. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Additional final dividend paid for 2003 arising from shares issued under option scheme	34	–
Interim, paid – HK3 cents per ordinary share (2003: HK1 cent)	9,881	3,259
Proposed final – HK5 cents per ordinary share (2003: HK3 cents)	16,658	9,822
	26,573	13,081

The final dividend of HK5 cents (2003: HK3 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.

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2004 together with the comparative figures for 2003 are calculated as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit for the purpose of basic and diluted earnings per share	72,400	33,266

	2004	2003
Weighted average number of ordinary shares for the purpose of basic earnings per share	328,635,730	325,520,564
Effect of dilutive potential ordinary shares assumed exercise of share options	6,069,967	5,019,197
Weighted average number of ordinary shares for the purpose of diluted earnings per share	334,705,697	330,539,761

Notes to the Financial Statements

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (Hong Kong) HK\$'000	Land and 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
THE GROUP								
COST								
At 1 January 2004	33,401	218,145	11,123	30,246	219,087	70,421	22,017	604,440
Additions	-	12,562	39,954	15,943	18,949	8,231	4,487	100,126
Transfers	-	13,196	(41,464)	-	28,268	-	-	-
Transfer to investment properties (note 14)	(6,313)	-	-	-	-	-	-	(6,313)
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	27,088	237,767	9,613	41,734	241,668	65,675	22,879	646,424
ACCUMULATED								
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2004	5,386	31,345	-	16,397	110,630	54,997	15,456	234,211
Provided for the year	622	7,663	-	7,755	21,586	4,257	2,244	44,127
Transfer to investment properties (note 14)	(490)	-	-	-	-	-	-	(490)
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	5,518	37,875	-	20,122	118,341	50,180	14,516	246,552
NET BOOK VALUES								
At 31 December 2004	21,570	199,892	9,613	21,612	123,327	15,495	8,363	399,872
At 31 December 2003	28,015	186,800	11,123	13,849	108,457	15,424	6,561	370,229

Included in land and building (elsewhere) were properties in the PRC with an aggregate amount of HK\$5,993,000 (2003: HK\$6,133,000), 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.

Notes to the Financial Statements

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Land in Hong Kong:		
Medium term leases	21,570	28,015
Land outside Hong Kong:		
Long term leases	1,999	2,105
Medium term leases	197,893	184,695
	221,462	214,815

On 10 April 2005, the Group disposed of certain furniture and fixtures for an aggregate consideration of HK\$1,000,000. After making due enquiry, the directors were satisfied that the selling price of the furniture and fixtures represented the estimated recoverable amount as at 31 December 2004. Accordingly, an impairment loss of HK\$1,860,000 was recognised.

The directors conducted a review on the recoverable amount of the property, plant and equipment at the balance sheet date and considered that certain plant and equipment have been impaired. Accordingly, an impairment loss of HK\$1,000,000 has been provided for the year.

The net book value of the motor vehicles includes an amount of HK\$910,000 (2003: HK\$1,041,000) in respect of assets held under finance leases.

14. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2004	34,500
Transfer from property, plant and equipment (<i>note 13</i>)	5,823
Surplus on revaluation	1,277
At 31 December 2004	41,600

Investment properties were revalued at their open market value at 31 December 2004 by Centaline Surveyors Limited, independent professionally qualified valuers. This revaluation gave rise to a revaluation increase of HK\$1,277,000 which has been credited to the investment properties revaluation reserve.

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

Notes to the Financial Statements

For the year ended 31 December 2004

15. TRADEMARKS

	THE GROUP
	HK\$'000
COST	
At 1 January 2004 and 31 December 2004	6,917
ACCUMULATED AMORTISATION	
At 1 January 2004	1,556
Provided for the year	692
At 31 December 2004	2,248
NET BOOK VALUES	
At 31 December 2004	4,669
At 31 December 2003	5,361

The amount is amortised over 10 years.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	126,671	126,671
Due from subsidiaries	410,612	390,071
	537,283	516,742

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repaid in the next twelve months.

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Details of the Company's principal subsidiaries at 31 December 2004 are set out 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
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 Daliwai Fashion Co., Ltd. (Note 1)	PRC	HK\$28,000,000	100	Garment manufacturing
Dongguan Sanyue Fashions Limited (Note 3)	PRC	HK\$10,000,000	69	Garment manufacturing
Guangdong Theme-Huayu Fashion Company Limited	PRC	RMB5,000,000	75 (Note 2)	Garment retailing
Hangzhou OCT & High Fashion Textile Co., Ltd. (Note 1)	PRC	RMB3,000,000	100	Garment manufacturing
High Fashion Apparel Limited	British Virgin Islands/Hong Kong	US\$1,000	100	Investment holding
High Fashion Garments, Inc.	USA	US\$5,000	100	Marketing and garment trading

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN 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 (China) Co., Ltd. (formerly known as Zhejiang High Fashion Kaidi Silk Co., Ltd.) (Note 1)	PRC	US\$14,600,000	100	Dyeing, printing and sandwashing of fabrics, garment manufacturing
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	Macao	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 International (USA) Inc.	USA	US\$1,800	100	Investment holding
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. (formerly known as Zhejiang Xinchang High Fashion Silk Science and Technology Co., Ltd.) (Note 1)	PRC	US\$20,000,000	100	Silk weaving
High Fashion Trading Company Limited	Hong Kong	HK\$2	100	Garment trading

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation or registration/ or 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 (UK) Limited	United Kingdom	GBP20,000	70.5	Garment trading
Navigation Limited	British Virgin Islands/Hong Kong	US\$1	100	Investment holding
Shanghai Theme Fashion Company (Note 1)	PRC	RMB3,000,000	75 (Note 2)	Garment retailing
Stage II Limited	Hong Kong	HK\$800,000	75	Garment retailing
Super Base (China) Limited	Hong Kong	HK\$2	75	Property holding
Taiwan Vision Company Limited	Taiwan	NT\$80,000,000	75	Garment retailing
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
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 subsidiaries of non-wholly owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.
- (3) These companies are registered as a sino-foreign equity joint venture.

The shares of Theme are listed on the Stock Exchange. The market value of Theme's shares held by the Group amounted to HK\$135,450,000, as at 31 December 2004 (2003: HK\$56,437,000).

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTERESTS IN SUBSIDIARIES (cont'd)

Exception for High Fashion Apparel Limited which is directly held by the Company, all other subsidiaries listed above are indirectly held by the Company.

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

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

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	–

Details of the Group's associates at 31 December 2004 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	Dormant

The investments in the associates are indirectly held by the Company.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	10,561	9,322

Notes to the Financial Statements

For the year ended 31 December 2004

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (cont'd)

At 31 December 2004, the Group had interests in the following jointly controlled entities:

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

Note: The Group holds 51% of the share capital Suzhou High Fashion. However, under the terms of memorandum and articles of associations of Suzhou High Fashion, all significant events must be mutually agreed by the Group and the other significant shareholder. Therefore, Suzhou High Fashion is classified as a jointly controlled entity of the Group.

All of the above investments in jointly-controlled entities are indirectly held by the Company.

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investments, at cost	14,118	14,118
Less: Impairment loss recognised	(325)	(325)
	13,793	13,793

Details of the Group's principal investments in securities are set out as follows:

Name	Place of registration and operations	Percentage of equity interest attributable to the Group (Note)
Zhoushan High Fashion Silk Spinning & Clothing Co., Ltd.	PRC	30
Zhoushan High Fashion Knitting Co., Ltd.	PRC	30

Note: The interests in these companies have not been accounted for as associates because the Group does not have significant influence over these companies.

Notes to the Financial Statements

For the year ended 31 December 2004

20. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	118,384	59,098
Work in progress	83,874	109,589
Finished goods	126,528	102,828
	328,786	271,515

Included above are raw materials of approximately HK\$42,745,000 (2003: HK\$7,882,000) and finished goods of approximately HK\$71,562,000 (2003: HK\$65,389,000) which are carried at net realisable value.

21. 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:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within 90 days	234,313	252,006
91 to 180 days	7,993	7,790
181 to 360 days	5,645	1,922
Over 360 days	3,218	119
	251,169	261,837

22. CERTIFICATE OF DEPOSITS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Unlisted certificate of deposits, at market value	10,000	10,000

Notes to the Financial Statements

For the year ended 31 December 2004

23. TRADE PAYABLES AND ACCRUED PURCHASES

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trade payables:		
Within 90 days	156,408	108,960
91 to 180 days	17,141	7,406
181 to 360 days	13,009	13,280
Over 360 days	11,113	13,477
	197,671	143,123
Accrued purchases	18,404	76,626
	216,075	219,749

24. AMOUNTS DUE TO JOINTLY-CONTROLLED ENTITIES AND AN ASSOCIATE

The balances are unsecured, interest-free and have no fixed terms of repayment.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	294	310	262	274
In the second year	205	184	191	168
In the third to fifth years, inclusive	71	101	71	99
	570	595	524	541
Less: Future finance charges	(46)	(54)	-	-
Present value of lease obligations	524	541	524	541
Less: Amount due for settlement within 12 months (shown under current liabilities)			(262)	(274)
Amount due for settlement after 12 months (shown under non-current liabilities)			262	267

Notes to the Financial Statements

For the year ended 31 December 2004

25. OBLIGATIONS UNDER FINANCE LEASES (cont'd)

The Group leases certain of its motor vehicles. The average lease term is one to three years. For the year ended 31 December 2004, the average effective borrowing rate was 4%. 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.

26. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	3,160	2,946
Trust receipt loans	4,278	19,876
Bank loans	445,690	344,360
	453,128	367,182
Analysed as:		
Secured	–	42,734
Unsecured	453,128	324,448
	453,128	367,182
The maturity profile of the above borrowings is as follows:		
On demand or within one year	345,128	343,782
More than one year, but not exceeding two years	54,000	23,400
More than two years, but not exceeding five years	54,000	–
	453,128	367,182
Less: Amounts due within one year shown under current liabilities	(345,128)	(343,782)
Amounts due after one year shown under non-current liabilities	108,000	23,400

At 31 December 2003, certain bank loans were secured by mortgages over some of the Group's land and buildings, other receivables and trade receivables which had an aggregate net book value of approximately HK\$2,105,000, HK\$90,784,000 and HK\$64,194,000, respectively.

Notes to the Financial Statements

For the year ended 31 December 2004

27. DEFERRED TAXATION

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

	Accelerated tax depreciation	Unrealised profit arising on intra-group transactions
	HK\$'000	HK\$'000
THE GROUP		
At 1 January 2003	2,006	(2,184)
Charge to income statement for the year	6	415
	<hr/>	<hr/>
At 31 December 2003 and 1 January 2004	2,012	(1,769)
Charge to income statement for the year	–	888
	<hr/>	<hr/>
At 31 December 2004	2,012	(881)

The Group has tax losses arising in Hong Kong of HK\$834,278,000 (2003: HK\$828,890,000) that are available and tax losses arising in overseas of HK\$172,310,000 (2003: HK\$164,171,000) 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.

THE COMPANY

The Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

28. PROVISION FOR LONG SERVICE PAYMENTS

	THE GROUP
	HK\$'000
At 1 January 2004	3,153
Amount utilised during the year	(559)
	<hr/>
At 31 December 2004	2,594

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

Notes to the Financial Statements

For the year ended 31 December 2004

29. SHARE CAPITAL

	Number of shares	Amount
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2003, 31 December 2003, 1 January 2004 and 31 December 2004	1,000,000	100,000
Issued and fully paid:		
At 1 January 2003	324,382	32,438
Exercise of share options	3,020	302
At 31 December 2003 and 1 January 2004	327,402	32,740
Exercise of share options (<i>Note</i>)	1,950	195
At 31 December 2004	329,352	32,935

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 1,950,000 share options were exercised at the subscription price of HK\$0.505 per share, resulting in the issue of 1,950,000 shares of HK\$0.10 each for a total cash consideration of approximately HK\$985,000.

Notes to the Financial Statements

For the year ended 31 December 2004

30. RESERVES

THE COMPANY

	Share		Capital		Retained	Total
	premium account	Contributed surplus	Capital redemption reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	292,131	101,171	16,521	4,703	47,523	462,049
Exercise of share options	1,223	-	-	-	-	1,223
Profit for the year	-	-	-	-	19,580	19,580
Dividends paid	-	-	-	-	(3,259)	(3,259)
<hr/>						
At 31 December 2003 and 1 January 2004	293,354	101,171	16,521	4,703	63,844	479,593
Exercise of share options	790	-	-	-	-	790
Loss for the year	-	-	-	-	(473)	(473)
Dividends paid	-	-	-	-	(19,737)	(19,737)
<hr/>						
At 31 December 2004	294,144	101,171	16,521	4,703	43,634	460,173

The contributed surplus of the Company arose as a result of the Group's reorganisation in 1992 and represented the excess of the fair value of the subsidiaries' net assets acquired over the nominal value of the Company's shares issued in exchange therefor. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

The capital reserve of the Company represents the amount arising from the transferred of share premium account and to capital reserve.

31. 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.

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

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

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 7,440,000 share options outstanding, which represented approximately 2% 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 7,440,000 additional ordinary shares of the Company for a cash consideration of approximately HK\$3,757,000 (before issue expenses).

Notes to the Financial Statements

For the year ended 31 December 2004

31. SHARE OPTION SCHEMES (cont'd)

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

The following share options were outstanding during the year:

Name or category of participant	Date of grant	Exercise price HK\$	Number of share options						
			At 1 January 2003	Exercised during the year	Cancelled during the year	At 31 December 2003 and 1 January 2004	Exercised during the year	Cancelled during the year	At 31 December 2004
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	1,200,000	(480,000)	-	720,000	-	-	720,000
Wong Shing Loong, Raymond	5 May 1999	0.505	1,000,000	-	-	1,000,000	-	-	1,000,000
Jack Weinstock (Note 2)	5 May 1999	0.505	300,000	(150,000)	(150,000)	-	-	-	-
Other employees	5 May 1999	0.505	5,120,000	(2,390,000)	-	2,730,000	(1,950,000)	(360,000)	420,000
			12,920,000	(3,020,000)	(150,000)	9,750,000	(1,950,000)	(360,000)	7,440,000

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) Jack Weinstock resigned as director on 15 October 2003.
- (3) The weighted average closing price of the Company's shares immediately before the dates of which the options were exercised was HK\$1.18 (2003: HK\$1.03).

(B) Share option scheme of Theme

Theme operates a share option scheme (the "Theme Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Theme and its subsidiaries operations. Eligible participants of the Theme Share Option Scheme include any employee or executive or any non-executive directors of 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.

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2004

32. NON-CASH TRANSACTIONS

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

33. PLEDGE OF ASSETS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Land and buildings	–	2,105
Other receivables	–	90,784
Trade receivables	57,449	64,194
Bank deposits	5,554	–
	63,003	157,083

34. CONTINGENT LIABILITIES

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

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank guarantees given in lieu of utility, property rental and other service deposits	966	1,121	–	–
Bills discounted with recourse	30,594	12,043	–	–
Trade receivables factored with recourse	13,011	23	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	413,500	714,400
	44,571	13,187	413,500	714,400

As at 31 December 2004, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$331 million (2003: HK\$172 million).

Notes to the Financial Statements

For the year ended 31 December 2004

35. OPERATING LEASES

(a) The Group as lessor

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

At 31 December 2004, the Group had contracted with tenants for the following future minimum lease payment:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	7,951	6,059
In the second to fifth years, inclusive	9,601	1,606
	17,552	7,665

(b) As lessee

At 31 December 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	41,723	31,710
In the second to fifth years, inclusive	73,006	42,857
Over five years	17,995	29,972
	132,724	104,539
Equipment:		
Within one year	–	122
In the second to fifth years, inclusive	–	141
	–	263
	132,724	104,802

Notes to the Financial Statements

For the year ended 31 December 2004

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	1,680	3,703

(b) At the balance sheet date, the Group had entered into agreements for forward sales of foreign currencies contracts:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
United States dollars	77,390	63,024
Euro	4,094	–
Pounds	16,478	–
	97,962	63,024

37. RELATED PARTY TRANSACTIONS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Purchases of raw materials and finished goods from jointly-controlled entities (<i>note i</i>)	50,129	37,447
Sales of raw materials and finished goods to jointly controlled entities (<i>note i</i>)	3,958	–
Professional fees paid to Wilkinson & Grist (<i>note ii</i>)	165	72

Notes:

- (i) The purchases and sales of raw materials and finished goods were made according to the published prices and conditions offered from and to the major suppliers and customers of the Group, except that a longer credit period was usually granted.
- (ii) The professional fees related to the provision of legal advisory services and were charged according to the fee rates and conditions similar to those offered to other customers of Wilkinson & Grist. Mr. Chan Wah Tip, Michael, director of the Company, is a partner of Wilkinson & Grist.

FIVE YEARS FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and minority interests 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

	1.1.2004 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	1.10.1999 to 30.9.2000 HK\$'000
Turnover	1,964,018	1,917,911	2,173,480	2,325,666	1,852,907
Profit (loss) before taxation	51,511	35,264	(20,993)	51,726	136,849
Taxation	(5,663)	(1,998)	(2,192)	(6,621)	(2,797)
Profit (loss) before minority interests	45,848	33,266	(23,185)	45,105	134,052
Minority interests	26,552	–	(727)	(716)	(648)
Net profit (loss) for the year	72,400	33,266	(23,912)	44,389	133,404

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31.12.2004 HK\$'000	31.12.2003 HK\$'000	31.12.2002 HK\$'000	30.9.2001 HK\$'000	30.9.2000 HK\$'000
Total assets	1,480,571	1,361,473	1,316,117	1,368,629	1,051,571
Total liabilities	(828,421)	(756,336)	(742,602)	(749,199)	(480,345)
Minority interests	(800)	(9,000)	(9,000)	(19,762)	(18,900)
	651,350	596,137	564,515	599,668	552,326

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lam Foo Wah
(Chairman and Managing Director)
Mr. Ip Weng Kun (Deputy Managing Director)
Mr. Hui Yip Wing, David
Mr. Wong Shing Loong, Raymond
Ms. So Siu Hang, Patricia

Non-executive Director

Mr. Chan Wah Tip, Michael, Solicitor

Independent Non-executive Directors

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

QUALIFIED ACCOUNTANT

Mr. Wong Shing Loong, Raymond

SECRETARY

Miss Chan Wai Wei

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Prince's Building
10 Chater Road
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LEGAL ADVISERS ON BERMUDA LAW

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

PRINCIPAL BANKERS

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

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