

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the period from 1 October 2001 to 31 December 2002.

CHANGE OF FINANCIAL YEAR END DATE

The Group changed its financial year end date from 30 September to 31 December with effect from 1 October 2001. The current accounting period covers a period of fifteen months from 1 October 2001 to 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's principal subsidiaries and associates are set out in notes 18 and 20 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the period.

FINANCIAL RESULTS

The Group's loss for the period from 1 October 2001 to 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 68.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 69. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the period are set out in note 16 to the financial statements.

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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 existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company did not have any reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK\$798,599,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the period under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the period. Purchases from the Group's five largest suppliers accounted for 47% of the total purchases for the period and purchases from the largest supplier included therein amounted to 16%.

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.

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DIRECTORS

The directors of the Company during the period were:

Executive directors:

Lam Foo Wah

Hui Yip Wing, David

Wong Shing Loong, Raymond

Choi Yat Ling, Charing (resigned on 6 February 2002)

Non-executive director:

He Ling

Independent non-executive directors:

Yeung Kwok Wing

Mak Kam Sing, Simon

Alternate director:

Ying Yuming (alternate director to He Ling, from 31 August 2001 to 20 September 2002)

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. In accordance with the Company's bye-laws, Mr Yeung Kwok Wing will retire by rotation, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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 8 to 9 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.

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interest of a director in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Nature of interest	Number of ordinary shares held
Lam Foo Wah	Corporate	*1,881,247,050

* Mr. Lam Foo Wah has a corporate interest in 1,881,247,050 ordinary shares pursuant to the Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as a result of his shareholding in High Fashion International Limited. These 1,881,247,050 ordinary shares are registered in name of Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (a company listed on The Stock Exchange of Hong Kong Limited).

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption during the period of Statement of Standard Accounting Practice No. 34 "Employee benefits", most of the detailed disclosures relating to the Company's share option scheme have been moved to note 31 to the financial statements.

No theoretical value of share options is disclosed as no share options were granted during the period.

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SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more of the issued capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares held	Percentage of the Company's issued capital
Navigation Limited	1,881,247,050*	About 75
High Fashion International Limited	1,881,247,050*	About 75
Lam Foo Wah	1,881,247,050*	About 75

* Mr. Lam Foo Wah has a corporate interest in 1,881,247,050 ordinary shares pursuant to the Practice Note 5 to the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited as a result of his shareholding in High Fashion International Limited. These 1,881,247,050 ordinary shares are registered in the name of Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited (a company listed on The Stock Exchange of Hong Kong Limited). These 1,881,247,050 ordinary shares represent the same interests, and are therefore duplicated amongst the three substantial shareholders.

This interest has also been disclosed as an interest of Mr. Lam Foo Wah in the "Directors' interests in shares" above.

Save as disclosed above, no person, other than the director of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

- (a) During the period, additional loan facilities in the amount of HK\$70 million were granted to the Company by Navigation Limited, a wholly-owned subsidiary of High Fashion International Limited ("High Fashion") bringing a total loan facilities granted to the Company as at the balance sheet date to HK\$100 million. At the balance sheet date, the outstanding loan balance, amounted to HK\$64 million, was unsecured and bore interest at the Hong Kong Dollar Prime Rate. A total interest expense of HK\$2,835,000 was paid to Navigation Limited during the period.

High Fashion is the ultimate holding company of the Company.

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CONNECTED TRANSACTIONS – continued

- (b) During the period, Dong Guan Sanyue Fashions Ltd. (“Dongguan Sanyue”), a 92% owned subsidiary of the Company, accepted subcontracting orders for the production of garments from Dongguan Daliwai Fashion Co., Ltd., and Access Agents Limited, Dongguan High Fashion (Feng Gang) Garments Factory and High Fashion Garments (Zhong Shan) Limited, which are wholly-owned subsidiaries, the processing operation in the PRC controlled by, and a 51% jointly-controlled entity of High Fashion, respectively. Subcontracting charges totaling HK\$1,982,000 were received by Dongguan Sanyue in respect of the above services.
- (c) High Fashion Garments Management Limited (“HFGM”), a wholly-owned subsidiary of High Fashion entered into a provision of service agreement on 26 September 2001 with the Company, to provide administrative services for an initial term of three years commencing on 1 October 2001. The service fee for computer systems and data processing services, financial and management accounting services, human resources support, office administration services and company secretarial services, is calculated at an annual charge payable by the Group to HFGM at the lower of HK\$6,000,000 or 2% of the annual turnover of the Group and service fee for warehousing and distribution services, is calculated at an annual charge payable by the Group to HFGM at the lower of HK\$3,000,000 or 1% of the annual turnover of the Group. During the period, service fees totaling HK\$7,253,000 were paid by the Group in respect of the above services.

The independent non-executive directors of the Company have reviewed and confirmed that the above connected transactions (b) and (c) were: (i) entered into in the ordinary and usual course of the Group’s business; (ii) carried out in accordance with the terms of the respective agreements governing such transactions; (iii) entered into on terms that were fair and reasonable so far as the independent shareholders of the Company are concerned and in the interest of the Group as a whole; and (iv) within the maximum expected extent of HK\$10 million.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Group’s loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a banking facility letter dated 3 April 2001 between one of the subsidiaries and KBC Bank N.V., relating to the banking facility of HK\$10,000,000, a termination event would arise if High Fashion International Limited, the Company’s ultimate holding company, ceases to own beneficially, directly or indirectly, at least 51% of the shares in the Company’s capital.

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CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the fifteen months ended 31 December 2002, in compliance with Appendix 14.

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 comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment 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, 14 April 2003