

Directors' Report

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

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries and associates are set out in notes 34 and 17 to the financial statements, respectively.

The Group is principally engaged in retailing and trading of garments.

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

Financial Results

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Group at that date are set out in the financial statements on pages 31 to 78.

Financial Information Summary

A summary of the published results and assets and liabilities of the Group for the last five financial years/periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 79. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Share Capital

Details of movements in the Company's share capital are set out in note 24 to the financial statements.

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Listed Securities of the Company

During the year ended 31 December 2006, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

Directors' Report

Distributable Reserves

At 31 December 2006, 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\$846,922,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

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

Directors

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

Executive Directors:

Lam Foo Wah

Hui Yip Wing

Wong Shing Loong, Raymond

Independent Non-Executive Directors:

Yeung Kwok Wing (resigned on 1 March 2007)

Mak Kam Sing

Wong Shiu Hoi, Peter

Leung Hok Lim (appointed on 1 March 2007)

In accordance with bye-law 87 of the Company, Mr. Hui Yip Wing and Mr. Wong Shiu Hoi, Peter will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 86(2) of the Company, Mr. Leung Hok Lim who was appointed as an Independent Non-Executive Director of the Company on 1 March 2007, will hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Independence Confirmation

Pursuant to the Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive director re-affirmed his independent status with the Company as at 31 December 2006, and the Company considered that they are independent.

Directors' Report

Directors' Emolument

Details of the Directors' emoluments for year 2006 are set out in the Remuneration Committee of the Corporate Governance Report on page 25, and particulars as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 11 and 12 to the financial statements.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the annual report.

Directors' Service Contracts

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

Directors' Interests in Contracts

Save as disclosed in note 32 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Directors' and Chief Executives' Long Positions and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2006, the long positions and short positions of the directors, chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including long positions and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO), the Model Code contained in the Listing Rules and which have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, were as follows:

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

Name of director	Capacity	Nature of interest	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of the Company's share capital
Lam Foo Wah	Interest of controlled corporation	Corporate	3,762,494,100 (Note 1)	959,707,594 (Note 2)	4,722,201,694	94.13%

Directors' Report

Directors' and Chief Executives' Long Positions and Short Positions in Shares, Underlying Shares and Debentures – continued

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

Notes:

- The 3,762,494,100 shares of the Company are registered in the name of Navigation Limited which is an indirect wholly-owned subsidiary of High Fashion International Limited ("High Fashion"), representing approximately 75% of the issued share capital of the Company. Pursuant to the SFO, Mr Lam Foo Wah is deemed to have an interest in 3,762,494,100 ordinary shares of the Company as a result of his shareholding of 41.73% in High Fashion.
- Navigation Limited owned approximately HK\$66 million convertible notes that can be converted into 959,707,594 new shares of the Company. Pursuant to the SFO, Mr Lam Foo Wah is deemed to have an interest in 959,707,594 underlying shares of the Company as a result of his shareholding of 41.73% in High Fashion.

(ii) Long Positions in the Company's Debentures

Mr. Lam Foo Wah is deemed to have an interest in HK\$66 million convertible notes which are beneficially owned by Navigation Limited, an indirect wholly-owned subsidiary of High Fashion.

(iii) Long Positions in the Shares of Associated Corporations

(a) *High Fashion International Limited ("High Fashion") – ultimate holding company of the Company*

Name of director	Notes	Capacity	Nature of interest	Number of ordinary shares held	Percentage of High Fashion's issued capital (Note 3)
Lam Foo Wah	1, 2	Other Interest	Other	139,433,986	41.73%
Hui Yip Wing		Interest of spouse	Family	2,652,007	0.79%
Wong Shing Loong, Raymond		Beneficial owner	Personal	2,900,000	0.87%

(b) *High Fashion Knitters Limited ("HF Knitters") – fellow subsidiary of the Company*

Name of director	Note	Capacity	Nature of interest	Number of ordinary shares held	Percentage of HF Knitters's issued capital
Lam Foo Wah	4	Interest of controlled corporations	Corporate	5,339,431	35.60%

Directors' Report

Directors' and Chief Executives' Long Positions and Short Positions in Shares, Underlying Shares and Debentures – continued

(iii) Long Positions in the Shares of Associated Corporations – continued

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 104,516,419 ordinary shares of High Fashion which are beneficially owned by Hinton Company Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
2. Mr. Lam Foo Wah is deemed to have an interest in 34,917,567 ordinary shares of High Fashion which are beneficially owned by High Fashion Charitable Foundation Limited, the entire issued share capital of which is held under a related discretionary trust. Mr. Lam is regarded as a founder of the trust.
3. The issued share capital of High Fashion is 334,161,550 shares as at 31 December 2006.
4. These shares are held through three companies beneficially owned by Mr Lam Foo Wah.

Save as disclosed above, as at 31 December 2006, the directors, chief executives of the Company nor their associates had or was deemed to have any long positions 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 Model Code of the Listing Rules.

Furthermore, save as disclosed in the "Share Option Scheme" section below, at no time for the year ended 31 December 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Scheme

Pursuant to the Company's share option scheme, there were no outstanding options at the beginning and at the end of the year ended 31 December 2006. No options were granted, exercised, cancelled or lapsed under the existing share option scheme during the year.

During the year ended 31 December 2006, no rights were granted to the directors, chief executives of the Company, or any of their spouses or children under 18 years of age to subscribe for equity or debt securities of the Company.

Directors' Report

Substantial Shareholders

As at 31 December 2006, the following substantial shareholders, other than directors or chief executive of the Company, had an interest in the shares or short position and underlying shares of the Company which fall to be disclosed to the Company pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of SFO:

Long Positions in the Company's Shares and Underlying Shares:

Name of shareholder	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of the Company's share capital
High Fashion International Limited (Note)	Interest of controlled corporations	3,762,494,100	959,707,594	4,722,201,694	94.13%

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

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and Chief Executives' Long Positions and Short Positions in Shares, Underlying Shares and Debentures" above, at 31 December 2006, 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.

Conversion of Convertible Notes

20 convertible notes of HK\$3,311,000 each aggregating HK\$66,220,000 issued by the Company in favour of Navigation Limited, a subsidiary of High Fashion, were originally due for mandatory conversion in accordance with the terms of the convertible notes into 959,707,594 new shares of the Company on 31 August 2005 was automatically postponed in accordance with the terms of the convertible notes until such time as the Company is satisfied that Rule 8.08 of the Listing Rules will not be breached, details of which has already been announced on 5 September 2005.

Directors' Report

Connected Transactions

- (a) In prior years, loan facilities in the amount of HK\$100 million (the "Loan") were granted to the Company by Navigation Limited, a wholly-owned subsidiary of High Fashion. Pursuant to a deed of waiver and payment restructuring dated 14 September 2004 made between Navigation Limited and the Company, HK\$45 million was waived and the Loan amount was reduced to HK\$55 million, in which HK\$20 million and HK\$35 million should be repayable by 31 December 2005 and 31 December 2006 respectively. HK\$6 million was repaid in prior year. Accordingly, there was a remaining loan of HK\$49 million repayable as at 31 December 2006. High Fashion confirmed that the remaining Loan would be extended to 31 December 2008 on the same terms, except that the Company can, with two weeks' prior notice, early repay the remaining Loan or part of the remaining Loan together with accrued interest thereon.
- (b) During the year, Dong Guan Sanyue Fashions Ltd. ("Dongguan Sanyue"), a 92% owned subsidiary of the Company, accepted subcontracting orders for the production of garments from Dongguan Dalisheng Fashion Co., Ltd. which is a subsidiary in The People's Republic of China controlled by High Fashion. Subcontracting charges totalling HK\$8,659,000 were received by Dongguan Sanyue in respect of the above services.

The independent non-executive directors of the Company have reviewed and confirmed that the above connected transaction (b) 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.

Continuing Disclosure Requirements

In accordance with the disclosure requirements of rules 13.18, 13.20 and 13.21 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 16 July 2003 between one of the subsidiaries and KBC Bank N.V., relating to the banking facility of HK\$5,000,000, 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 issued capital.

Sufficiency of Public Float

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

Directors' Report

Post Balance Sheet Event

Details of the post balance sheet event are disclosed in note 33 to the financial statements.

Corporate Governance

The Company has complied with all the code provisions and to certain extent of the recommended best practices set out in Appendix 14 Code on Corporate Governance Practices (the "CG Code") of the Listing Rules throughout the accounting year ended 31 December 2006. Details of the Company's corporate governance report are set out on pages 21 to 28.

Auditors

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

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

ON BEHALF OF THE BOARD

Hui Yip Wing

Vice Chairman and CEO

Hong Kong, 11 April 2007