

The background features several overlapping geometric shapes. On the left, there are vertical bars in shades of purple and orange. A large, light purple rectangle is positioned in the upper left. A dark purple vertical bar runs down the center. A large orange rectangle occupies the bottom right portion of the page.

# Report of the Directors

## Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2005.

### **Principal Activities**

The principal activity of the Company is investment holding. Details of the principal activities of the Company's principal subsidiaries and associates are set out in notes 35 and 15 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 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 32 to 81.

### **Summary Financial Information**

A summary of the published results and assets and liabilities of the Group for the last five financial years/periods, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 82. This summary does not form part of the audited financial statements.

### **Post Balance Sheet Event**

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

### **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.

## Report of the Directors

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

During the year ended 31 December 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

### **Distributable Reserves**

At 31 December 2005, 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 were:

#### **Executive directors:**

Lam Foo Wah  
Hui Yip Wing  
Wong Shing Loong, Raymond

#### **Independent non-executive directors:**

Yeung Kwok Wing  
Mak Kam Sing  
Wong Shiu Hoi, Peter

## Report of the Directors

### **Directors – continued**

In accordance with the Company's bye-law 87, Mr. Lam Foo Wah, Mr. Mak Kam Sing and Professor Yeung Kwok Wing 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 reaffirmed his independent status with the Company as at 31 December 2005, and the Company considered that they are independent.

### **Directors' and Senior Management's Biographies**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of the annual report.

### **Directors' Service Contracts**

No director being 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 34 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.

## Report of the Directors

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

As at 31 December 2005, the interests and short positions of the directors, chief executives and their associates of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) and have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

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

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

Notes:

1. Mr. Lam Foo Wah has the corporate interest in 3,762,494,100 ordinary shares of the Company pursuant to the SFO as a result of his shareholding of 39.87% in High Fashion International Limited ("HF") (a company listed on the Stock Exchange). 3,762,494,100 shares of the Company are registered in the name of Navigation Limited, a wholly-owned subsidiary of HF.
2. Mr. Lam Foo Wah has the corporate interest in 959,707,594 underlying shares of the Company pursuant to the SFO as a result of his shareholding of 39.87% in HF. Navigation Limited owned approximately HK\$66 million convertible notes that can be converted into 959,707,594 new shares of the Company.

#### (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, a wholly-owned subsidiary of HF.

## Report of the Directors

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

#### (iii) Long Positions in the Shares of Associated Corporations

##### (a) High Fashion International Limited – Ultimate Holding Company of the Company

Name of director	Notes	Number of ordinary shares held and nature of interests			Number of underlying shares held (Note 3)	Total	Percentage of the associated corporation's issued capital
		Personal	Family	Other			
Lam Foo Wah	1,2	3,800,000	–	129,013,986	–	132,813,986	39.87%
Hui Yip Wing		–	2,652,007	–	–	2,652,007	0.80%
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000	1.08%

##### (b) High Fashion Knitters Limited – Fellow Subsidiary of the Company

Name of director	Note	Nature of interest	Number of ordinary shares held	Percentage of the fellow subsidiary's issued capital
Lam Foo Wah	4	Controlled corporation	5,339,431	35.60%

#### Notes:

- Mr. Lam Foo Wah is deemed to have an interest in 94,096,419 ordinary shares of HF 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 of HF 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.
- The underlying shares represent the options granted to the directors by HF under HF's share option scheme.
- These shares are held through three companies beneficially owned by Mr. Lam Foo Wah.

## Report of the Directors

### **Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures** – continued

Save as disclosed above, as at 31 December 2005, none of the directors, chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the above mentioned Model Code of the Listing Rules. Furthermore, save as disclosed in the "Share Options" section below, at no time for the year ended 31 December 2005 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **Share Options**

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 2005. No options were granted, exercised, cancelled or lapsed under the existing share option scheme during the year.

During the year ended 31 December 2005, 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.

## Report of the Directors

### Substantial Shareholders

At 31 December 2005, the interests of the following substantial shareholders, other than directors and chief executives of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, have been recorded in the register kept by the Company pursuant to Section 336 of the SFO:

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

Name	Capacity and nature of interest	Number of ordinary shares held	Number of underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
High Fashion International Limited*	Through controlled corporation	3,762,494,100	959,707,594	4,722,201,694	94.13%

\* The above interest has also been disclosed as an interest of Mr. Lam Foo Wah in the "Directors' and Chief Executives' Interests 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' 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.

### Connected Transactions

- 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 HF. Pursuant to a deed of waiver and payment restructuring dated 14 September 2004 made between Navigation Limited and the Company, HK\$45 million should be waived and the Loan amount should be 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 and a total interest expense of HK\$3,405,000 was paid to Navigation Limited during the year. Accordingly, there was a remaining loan repayable of HK\$49 million at 31 December 2005.
- 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 HF. Subcontracting charges totalling HK\$6,915,000 were received by Dongguan Sanyue in respect of the above services.

## Report of the Directors

### **Connected Transactions – continued**

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 as at the date of this report and within the knowledge of the directors, there is a sufficiency of public float of the Company's securities as required under the Listing Rules.

### **Change in Accounting Policies**

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

### **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 HF, 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.

## Report of the Directors

### **Auditors**

The financial statements of the Company for the year ended 31 December 2005 were audited by Deloitte Touche Tohmatsu.

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

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

ON BEHALF OF THE BOARD

**Hui Yip Wing**

*Vice Chairman and CEO*

Hong Kong, 13 April 2006