

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

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 16 and 18 to the financial statements.

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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 16 to 56.

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 57. 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 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.

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 and up to the date of this report.

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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.

DISTRIBUTABLE RESERVES

At 31 December 2003, 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 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, David

Wong Shing Loong, Raymond

Non-executive director:

He Ling

(resigned on 26 September 2003)

Independent non-executive directors:

Yeung Kwok Wing

Mak Kam Shing, Simon

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. Wong Shing Loong, Raymond will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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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 7 to 8 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

Save as disclosed in note 36 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests and short positions of the director's of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(I) Long position in ordinary shares, underlying shares and debentures of the Company:

(i) Ordinary shares and underlying shares

Name of director	Number of ordinary shares held, capacity and nature of interest			Underlying shares held under equity derivatives	Total	Percentage of the Company's issued share capital
	Through spouse or minor children	Beneficially owned	Through controlled corporation			
Mr. Lam Foo Wah*	–	–	1,881,247,050	752,498,000	2,633,745,050	approximately 100.5

* Mr. Lam Foo Wah has a corporate interest in 1,881,247,050 ordinary shares and 752,498,000 underlying shares as a result of his shareholding in High Fashion International Limited. These 1,881,247,050 ordinary shares and 752,498,000 underlying 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).

(ii) Debenture

Mr. Lam Foo Wah is deemed to have an interest in HK\$66,219,824 convertible notes which are beneficially owned by Navigation Limited, a wholly owned subsidiary of High Fashion International Limited.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES – continued

(II) Long position in shares of associated corporations:

Name of director	Notes	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 share capital
Lam Foo Wah	1,2	High Fashion International Limited	Ultimate holding company	128,123,986	Through controlled corporations	39.1%
Hui Yip Wing, David		High Fashion International Limited	Ultimate holding company	2,652,007	Through spouse or minor children	0.8%
Wong Shing Loong, Raymond		High Fashion International Limited	Ultimate holding company	2,600,000	Beneficially owned	0.8%
Lam Foo Wah	3	High Fashion Knitters Limited	Fellow subsidiary	5,399,431	Through controlled corporations	35.6%

Notes:

1. Mr. Lam Foo Wah is deemed to have an interest in 93,372,419 ordinary shares of High Fashion International Limited 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 34,751,567 ordinary shares of High Fashion International Limited 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. These share are held through three companies beneficially owned by Mr. Lam Foo Wah.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year 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 minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 2003, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

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	1,881,247,050	752,498,000	2,633,745,050	Approximately 100.5
Lam Foo Wah*	Through controlled corporation	1,881,247,050	752,498,000	2,633,745,050	Approximately 100.5

* Mr. Lam Foo Wah has a corporate interest in 1,881,247,050 ordinary shares and 752,498,000 underlying shares as a result of his shareholding in High Fashion International Limited. These 1,881,247,050 ordinary shares and 752,498,000 underlying 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 and 752,498,000 underlying shares represent the same interests, and are therefore duplicated of amongst the two substantial shareholders.

The above interest has also been disclosed as an interest of Mr. Lam Foo Wah in the "Directors' interests and short positions in shares and underlying shares" above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" 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

(a) In prior years, loan facilities in the amount of HK\$100 million were granted to the Company by Navigation Limited, a wholly-owned subsidiary of High Fashion. At the balance sheet date, the outstanding loan balance, amounted to HK\$85 million, was unsecured and bore interest at the Hong Kong Dollar Prime Rate. A total interest expense of HK\$3,500,000 was paid to Navigation Limited during the year.

High Fashion is the ultimate holding company of the Company.

(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 Daliwai Fashion Co., Ltd. and Dongguan High Fashion (Feng Gang) Garments Factory, which are subsidiaries and the processing operation in the People's Republic of China controlled by High Fashion. Subcontracting charges totalling HK\$3,530,000 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. The 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 year, service fees totalling HK\$4,672,000 were paid by the Group in respect of the above services.

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CONNECTED TRANSACTIONS – continued

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 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.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual report.

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 do not offer themselves for re-appointment. There have been no other changes of auditors in the past three years. A resolution for the 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, 20 April 2004