

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 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company's subsidiaries are engaged in the retailing, export and production of casual wear. The principal activities of the Group have not significantly changed 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 31 to 87.

An interim dividend of HK2.70 cents per ordinary share was paid on 28 September 2004. The directors recommend the payment of a final dividend of HK10.50 cents per ordinary share in respect of the year, to shareholders on the register of members on 13 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 88 and 89 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in the fixed assets and investment property of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the movements in the Company's share options during the year, together with the reasons thereof, are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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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 32 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for cash distribution, as computed in accordance with The Companies Act 1981 of Bermuda (as amended), amounted to HK\$999,517,000, of which HK\$105,061,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$268,668,000 as at 31 December 2004, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$595,000.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for less than 30% of the Group's total turnover for the year.

Purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive

Mr. Charles Yeung, SBS, JP

(Chairman)

Mr. Yeung Chun Fan

(Vice-chairman)

Mr. Yeung Chun Ho

Mr. Pau Sze Kee, Jackson

Mr. Hui Chung Shing, Herman, JP

Ms. Cheung Wai Yee

Independent non-executive

Mr. Wong Man Kong, Peter, BBS, JP

Mr. Lau Hon Chuen, Ambrose, GBS, JP

Mr. Chung Shui Ming, Timpson, GBS, JP

(appointed on 22/9/2004)

Non-executive

Mr. Lam Lee G.

(appointed on 22/9/2004)

In accordance with bye-law 101 of the Company's Bye-laws, Mr. Chung Shui Ming, Timpson, JP and Mr. Lam Lee G. will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 110(A) of the Company's Bye-laws, Mr. Lau Hon Chuen, Ambrose, JP and Mr. Pau Sze Kee, Jackson will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected transactions" below and in note 37 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 subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2004, the interests or short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register kept by the Company under 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 Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

| Name of director | Capacity | No. of shares held | Total | Percentage of shareholding (%) |
|-------------------------------------|--|--|-------------|--------------------------------|
| Mr. Charles Yeung, SBS, JP | Interest of controlled corporations | 628,494,000 ⁽¹⁾ | 628,494,000 | 62.813 |
| Mr. Yeung Chun Fan | (i) Interest of controlled corporations (ii) Interest of spouse | 628,494,000 ⁽¹⁾ 6,730,000 ⁽³⁾ | 635,224,000 | 63.485 |
| Mr. Yeung Chun Ho | Interest of a controlled corporation | 32,430,000 ⁽²⁾ | 32,430,000 | 3.241 |
| Mr. Pau Sze Kee, Jackson | Beneficial owner | 9,370,000 | 9,370,000 | 0.936 |
| Mr. Hui Chung Shing, Herman, JP | Beneficial owner | 6,250,000 | 6,250,000 | 0.625 |
| Ms. Cheung Wai Yee | (i) Beneficial owner (ii) Interest of spouse | 6,730,000 ⁽³⁾ 628,494,000 ⁽³⁾ | 635,224,000 | 63.485 |
| Mr. Lau Hon Chuen, Ambrose, GBS, JP | Beneficial owner | 956,000 | 956,000 | 0.096 |

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (Continued)

Notes:

- (1) 394,954,000 shares were held by Glorious Sun Holdings (BVI) Limited (the entire issued voting share capital of which was held as to 51.934% by Mr. Charles Yeung, JP and as to 48.066% by Mr. Yeung Chun Fan) and 233,540,000 shares were held by Advancetex Holdings (BVI) Limited (the entire issued voting share capital of which was held as to 51.934% by Mr. Charles Yeung, JP and as to 48.066% by Mr. Yeung Chun Fan).
- (2) 32,430,000 shares were held by Unicom Consultants Limited, a company wholly owned by Mr. Yeung Chun Ho.
- (3) Ms. Cheung Wai Yee is the spouse of Mr. Yeung Chun Fan. 6,730,000 shares related to the same block of shares held by Ms. Cheung Wai Yee and 628,494,000 shares related to the same block of shares held by two companies controlled by Mr. Yeung Chun Fan.
- (4) Details of the interests of directors of the Company in the underlying shares in respect of options granted to them pursuant to the share option scheme adopted by the Company are set out in note 31 to the financial statements.
- (5) Interests in the shares and underlying shares in respect of share options are long position.

Save as disclosed above, as at 31 December 2004, none of the directors of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Divisions 7 and 8 of Part XV of the SFO, as recorded in the register kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from disclosed under the headings "Directors' interests and short positions in securities" above and in the share option scheme disclosure in note 31 to the financial statements, 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 children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

Concerning the share options granted to the directors, substantial shareholders, employees, suppliers and others, as detailed in note 31 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive Directors

Mr. YEUNG Chun Kam, SBS, JP, alias Charles YEUNG, aged 58, is the founder and Chairman of the Group. He is responsible for the Group's business strategies and corporate policies. Mr. Yeung has over 30 years of experience in the garment industry. He was an awardee of the "Young Industrialist Award of Hong Kong" in 1991 and was conferred an honorary doctorate degree by the China Textile University in 1993 and an honorary fellow by The Professional Validation Council of Hong Kong Industries in 2002. Mr. Yeung is a Member of the National Committee of the Chinese People's Political Consultative Conference, the Vice-president of China Association of Enterprises with Foreign Investment, the President of Guangdong Chamber of Foreign Investors and a Vice-chairman of The Chinese General Chamber of Commerce. Mr. Yeung is also an advisory professor of the East China University and the Tianjin Polytechnic University and a visiting professor of the Xi'an Institute of Science and Technology in the Mainland China. Mr. Yeung is a director and shareholder of Glorious Sun Holdings (BVI) Limited and Advancetex Holdings (BVI) Limited which are the substantial shareholders of the Company (as disclosed in the section headed "Substantial Shareholders" in this Report).

Mr. YEUNG Chun Fan, aged 52, is the Vice-chairman and General Manager of the Group which he joined in 1975. Mr. Yeung is an Honorary Fellow Member of the Hong Kong Institution of Textile and Apparel, an advisory professor of the Nanjiang University, the East China University and the Qingdao University, a part-time professor of the Northeastern University and Business School of Jilin University. Mr. Yeung is a Member of the Standing Committee of the Hebei Committee of The Political Consultative Conference, a Vice-president of the China National Garment Association and the Federation of Hong Kong Garment Manufacturers. Mr. Yeung is responsible for the Group's overall business operations. He is a brother of Mr. Charles Yeung and Mr. Yeung Chun Ho. Mr. Yeung is a director and shareholder of Glorious Sun Holdings (BVI) Limited and Advancetex Holdings (BVI) Limited which are the substantial shareholders of the Company (as disclosed in the section headed "Substantial Shareholders" in this Report).

Mr. YEUNG Chun Ho, aged 60, joined the Group in 1979 and is a Deputy General Manager of the Group. Mr. Yeung has over 25 years of experience in the garment industry. He is responsible for the Group's weaving and dyeing operations as well as the woven apparel manufacturing operations in the Philippines and Bangladesh. Mr. Yeung is a brother of Mr. Charles Yeung and Mr. Yeung Chun Fan.

Mr. PAU Sze Kee, Jackson, aged 53, joined the Group in 1987 and is a Deputy General Manager of the Group. Mr. Pau graduated from the University of Hong Kong with a bachelor's degree in Social Sciences. Before joining the Group, he had worked in several financial institutions and a listed trading company in the United Kingdom for more than 10 years. He is responsible for the Group's retail operations in Australia and the administrative and financial matters of the Group's production operations in the Philippines and Bangladesh.

Mr. HUI Chung Shing, Herman, JP, aged 54, is the Chief Administrator of the Group. He is responsible for the administration, personnel, public relations, staff training and legal matters of the Group. Mr. Hui graduated from the University of Hong Kong with a bachelor's degree in Laws. He is a solicitor of the High Court of the Hong Kong Special Administrative Region and has also been admitted as a solicitor of the Supreme Court of England and Wales and as a solicitor and barrister of the Supreme Court of Victoria, Australia. Before joining the Group in 1995, Mr. Hui was the Group's external legal advisor.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Executive Directors (Continued)

Ms. CHEUNG Wai Yee, aged 53, joined the Group in 1975 and is responsible for the Group's woven apparel manufacturing and export sales operations as well as assisting in the development of retail business in the Mainland China. Ms. Cheung is the wife of Mr. Yeung Chun Fan.

Independent Non-Executive Directors

Mr. WONG Man Kong, Peter, BBS, JP, aged 56, is a graduate of the University of California at Berkeley in U.S.A. with a bachelor of science degree in Mechanical Engineering (Naval Architecture) and was an awardee of the "Young Industrialist Award of Hong Kong" in 1988. Mr. Wong is the Chairman of M.K. Corporation Ltd., a Director of Hong Kong Ferry (Holdings) Co. Ltd., China Travel International Investment Hong Kong Limited, Sun Hung Kai & Co., Ltd., Chinney Investments Limited, Sino Hotels (Holdings) Limited and the Chairman of North West Development Ltd. He is a Deputy of the 10th National People's Congress of the PRC, an Executive Vice Chairman of Hong Kong Pei Hua Education Association, a Vice Chairman of Chamber of Tourism, All-China Federation of Industry & Commerce and a Director of Ji Nan University. He holds title of Honorary Professor in Lanzhou University and The Central University for Nationalities.

Mr. LAU Hon Chuen, alias Ambrose LAU, GBS, JP, aged 57, obtained a bachelor's degree in Laws from the University of London. He is a solicitor and a China-Appointed Attesting Officer. He is also a Member of the Board of the Urban Renewal Authority, a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference, a Member of the Economic and Employment Council and a Director of the Hong Kong Mortgage Corporation Limited.

Mr. CHUNG Shui Ming, Timpson, GBS, JP, aged 53, has been an Independent Non-executive Director and a Member of Audit Committee of the Company since September 2004. Mr. Chung holds a Master of Business Administration Degree and is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Currently he is an Executive Director and Chief Executive Officer of Shimao China Holdings Limited and Independent Non-executive Director of Stockmartnet Holdings Ltd., Hantec Investment Holdings Limited, Tai Shing International (Holdings) Limited and China Netcom Group Corporation (Hong Kong) Limited. He is also a Member of National Committee of the 10th Chinese People's Political Consultative Conference, a Council Member and the Deputy Chairman of the City University of Hong Kong and a Member of Hong Kong Housing Authority and Chairman of its Finance Sub-Committee.

Non-Executive Director

Mr. LAM Lee G., aged 45, has been a Non-executive Director of the Company since September 2004. He is the President and Chief Executive Officer and Vice Chairman of Chia Tai Enterprises International Limited. He is a Director of True Corporation Public Company Limited, and an Independent Non-executive Director of Rowsley Ltd., Hutchison Global Communications Limited, Hutchison Harbour Ring Limited, Capital Strategic Investment Limited, Shanghai Ming Yuan Holdings Limited, Far East Technology International Limited, and Finet Group Limited.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Senior Management

Mr. CHOW Hing Ping, aged 56, joined the Group in 1979 and is a Deputy General Manager of the Group. Mr. Chow is responsible for the administration and financial matters of the production and retail operations of the Group in Hong Kong and the Mainland China.

Mr. FUNG Hing Keng, aged 55, joined the Group in 1978 and is a Deputy General Manager of the Group. Mr. Fung has over 30 years of experience in the garment industry. He is responsible for the woven apparel manufacturing operations in the Mainland China and assists in the development of the retail operations in the same area.

Mr. LEE Fung Tai, aged 57, joined the Group in 1983 and is the head of the knitwear division responsible for production. Mr. Lee has over 30 years of experience in the garment industry. He is a substantial shareholder of the companies under the knitwear division. Mr. Lee is a Member of the Beijing Committee of the Political Consultative Conference.

Mr. LI Fung Lok, aged 55, joined the Group in 1983 and is the head of the knitwear division responsible for administration and export sales. Mr. Li has over 30 years of experience in the garment industry. Mr. Li is a substantial shareholder of the companies under the knitwear division.

Ms. CHEUNG Man Yee, Carmen, aged 54, joined the Group in 1982 and is responsible for the Group's product development and marketing operations. Ms. Cheung graduated from the University of Hawaii in U.S.A. with a bachelor's degree in Arts. Prior to joining the Group, she was the manager of the sales and purchase department in one of the largest department stores in U.S.A. Ms. Cheung is the sister of Ms. Cheung Wai Yee.

Mr. David Joseph BOTTA, aged 45, is the Chief Executive Officer of the Group's retail operations in Australia. Mr. Botta holds a bachelor degree of business studies from the University of Technology in Sydney, Australia. Before joining the Group in 2001, Mr. Botta worked in various retailing and wholesale jobs in Australia and Europe.

Mr. CHAN Wing Kan, Archie, aged 58, took up the position of Company Secretary on 3 February 2005. He has been the Group's business consultant for 25 years. Mr. Chan graduated from the University of New South Wales, Australia with a bachelor's degree in Commerce. He is a Member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. Mr. Chan has extensive experience in corporate investment and management.

Mr. LAI Man Sum, alias Sam LAI, aged 43, joined the Group in 1991 and is the Chief Accountant of the Group. Mr. Lai graduated from the University of Hong Kong with a bachelor's degree in Social Sciences. He is a fellow of the Association of Chartered Certified Accountants in the United Kingdom and a Member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Mr. Lai worked for an international accounting firm and a garment company for many years.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register kept by the Company under Section 336 of the SFO showed that the following shareholders (other than directors of the Company) had disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO an interest or a short position in the shares or underlying shares of the Company:

| Name of shareholder | Capacity | No. of shares held | Percentage of issued share capital (%) |
|-------------------------------------|------------------|---------------------------|---|
| Glorious Sun Holdings (BVI) Limited | Beneficial owner | 394,954,000 | 39.472 |
| Advancetex Holdings (BVI) Limited | Beneficial owner | 233,540,000 | 23.340 |

Save as disclosed above, no other parties (other than directors of the Company) disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2004.

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CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions with the following companies:

| | Notes | 2004 HK\$'000 | 2003 HK\$'000 |
|---|-------|------------------|------------------|
| Rental expenses paid to: | (i) | | |
| Golden Sunshine Enterprises Limited | | 3,980 | 4,553 |
| Houtex Investments Limited | | 1,177 | 1,177 |
| G. S. (Yeungs) Limited | | 708 | 935 |
| Gantin Limited | | 276 | 297 |
| Harbour Guide Limited | | 2,195 | 1,950 |
| Gloryear Management Limited | | 681 | 707 |
| | | 9,017 | 9,619 |
| Management fees paid to: | (iii) | | |
| Golden Sunshine Enterprises Limited | | 1,019 | 1,034 |
| G. S. Property Management Limited | | 276 | 276 |
| | | 1,295 | 1,310 |
| Sales of garment to: | (ii) | | |
| Jeanswest Corporation (New Zealand) Limited | | 7,707 | 9,109 |
| Service fees income received from: | (iii) | | |
| Jeanswest Corporation (New Zealand) Limited | | 7,775 | 6,904 |

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (continued)

Notes:

- (i) The rental expenses were charged with reference to the prevailing open market rentals.
- (ii) The sales of garments were made according to terms and conditions comparable to those offered to the major customers of the Group.
- (iii) The fees were determined according to the agreements signed between the parties having regard to the cost of services provided.

All of the above companies are controlled by Mr. Charles Yeung, JP, and Mr. Yeung Chun Fan, both of whom are directors of the Company.

The independent non-executive directors of the Company have reviewed and confirmed that all the above transactions with the related companies are in the ordinary and usual course of the Group's business, and that in their opinion, they are on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and in accordance with the terms of the agreements governing the transactions.

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 sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has, throughout the accounting period covered by the annual report, complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules which was in force prior to 1 January 2005, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

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AUDIT COMMITTEE

The Company's audit committee is composed of three independent non-executive directors of the Company, Mr. Wong Man Kong, Peter, JP, Mr. Lau Hon Chuen, Ambrose, JP and Mr. Chung Shui Ming, Timpson, JP. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited financial statements for the year ended 31 December 2004.

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

Charles Yeung, JP

Chairman

Hong Kong
11 April 2005