
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. Details of the principal activities of the Group's principal subsidiaries and associates are set out in notes 13 and 15 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 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 62.

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 63. 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 Company and the Group during the year are set out in note 12 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 2004, 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

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DISTRIBUTABLE RESERVES

At 31 December 2004, 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, David
Wong Shing Loong, Raymond

Independent non-executive directors:

Yeung Kwok Wing
Mak Kam Sing
Wong Shiu Hoi, Peter (appointed on 19 July 2004)

In accordance with the Company's bye-laws 86(2) and 87, Mr Wong Shiu Hoi, Peter and Mr Hui Yip Wing, David will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting respectively. 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), each independent non-executive directors re-affirmed his independent status with the Company as at 31 December 2004, 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 8 to 9 of the annual report.

REPORT OF THE DIRECTORS

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 33 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, 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 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	Approximately 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 in High Fashion International Limited ("HF"). 3,762,494,100 shares of the Company are registered in name of Navigation Limited, a wholly-owned subsidiary of HF (a company listed on the Stock Exchange).
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 in HF. Navigation Limited owned approximately HK\$66 million convertible notes that can be converted into 959,707,594 new shares of the Company.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – continued

(ii) Long Positions in the Company's Debentures

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.

(iii) Long Positions in the Shares of Associated Corporations

(I) *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 held of the associated corporation's issued capital
		Personal	Family	Other			
Lam Foo Wah	1,2	–	–	129,013,986	3,800,000	132,813,986	40.33%
Hui Yip Wing, David		–	2,652,007	–	–	2,652,007	0.81%
Wong Shing Loong, Raymond		2,600,000	–	–	1,000,000	3,600,000	1.09%

(II) *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%

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS 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 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.
2. 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.
3. The underlying shares represent the options granted to the directors by HF under HF's share option scheme.
4. These shares are held through three companies beneficially owned by Mr Lam Foo Wah.

Save as disclosed above, as at 31 December 2004, 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 2004 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 2004. No options were granted, exercised, cancelled or lapsed under the existing share option scheme during the year.

Apart from the Company's share option scheme, during the year ended 31 December 2004, 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.

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

At 31 December 2004, 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:

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	Approximately 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

- (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 International Limited. 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. A total interest expense of HK\$4,248,000 was paid to Navigation Limited during the year.
- (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. which is a subsidiary in the People's Republic of China controlled by High Fashion. Subcontracting charges totalling HK\$6,273,000 were received by Dongguan Sanyue in respect of the above services.

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CONNECTED TRANSACTIONS – continued

- (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\$3,687,000 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.

ISSUANCE OF SHARES

During the financial year, the Company conducted an open offer and raised approximately HK\$75.2 million, before expenses, by issuing 2,508,329,402 new shares. The allocation was made on 17 November 2004 to existing shareholders, on the basis of one new share for every ordinary share then held. The new shares rank pari passu with the existing shares in all respects.

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

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.

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CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") prior to the accounting period commencing on 1 January 2005.

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, which comprises three independent non-executive directors of the Company, has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2004.

THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the year ended 31 December 2004, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code throughout the year ended 31 December 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

CHANGE OF CHINESE NAME

The Company changed its Chinese name to 榮暉國際集團有限公司 on 29 October 2004.

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 director, there was a sufficiency of public float the Company's securities as required under the Listing Rules.

REPORT OF THE DIRECTORS

AUDITORS

Ernst & Young, who acted as auditor of the Company for the past three financial period, retired and did not offer themselves for re-appointment at 2004 annual general meeting and Deloitte Touche Tohmatsu were appointed auditors of the Company on 24 May 2004. A resolution for the re-appointment of 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, David
Vice Chairman and CEO

Hong Kong, 18 April 2005