

Chairman's Statement:

It has long been the Group's mission to be one of the world's recognised leaders in fashion apparel, with distinct focus on continuous improvement on technology to enhance the value of the products through state of the art silk weaving, printing, dyeing and garment finishing. Concrete action plan started more than 3 years ago. Firstly, the Group invested in the establishment of an advanced plant in Xinchang, which is equipped with the state of the art rapier loom from Italy and auxiliary facilities from Germany and Switzerland. It has also continuously invested in Hangzhou with updated printing and dyeing equipment. The Group also brings in leading experts from Italy in fabrics, yarn development, printing, dyeing and finishing; thus enhancing the quality and design of its products to world class.

In 2005, High Fashion decided to establish a first class production base of world class silk ladies apparel to further support our mission. This vision of High Fashion coincided with a major strategy of Hangzhou Municipal Committee and Municipal Government, which is "promoting the Home of China Silk to become the World Capital of ladies apparel". Our major development projects had hence drawn attention and full support from the Hangzhou Municipal Committee and Municipal Government. Secretary of the Municipal Committee, the Mayor and others had visited the Group and assisted the smooth implementation of the project. Our project is identified as the number one project of "promoting the Home of China Silk to become the World Capital of ladies apparel" and a major project of the 11th Five Year Plan of Hangzhou. It is an encouragement to the Group and also a drive for us.

The Group's company in Xinchang was the only enterprise that was awarded "Development Base of New Silk Products in China" by the China Silk Association in the past two years. Our company in Hangzhou, for 2 consecutive years, ranked number one in export of silk apparel among the fashion enterprises in China. However, it is still a long way for the Group to achieve the ultimate goal of becoming the world's first class apparel enterprise. Under full support from the government, the company in Hangzhou is currently endeavouring to carry out construction of new factories

and renovation on the existing plant of High Fashion (China). The construction of a new complex of international standard will soon commence. The foundation ceremony will be hosted by Hangzhou Municipal Government on 20 April. The complex is expected to be ready for full scale operation by the end of 2007. The Group will then provide a better working and living environment for its assiduous employees, and also provide a development platform for achieving ultimate corporate goals.

The Group has well defined objective and direction of its future development. The Group believes that, by upgrading our production technology and hence our products to a world class quality level, we can enhance the added value of our products and achieve breakthrough in market competition. Implementation is under way with full force. In the second half of 2005, the appreciation of and the expected continual appreciation of Renminbi, together with the escalating price of raw silk, had a major impact on low end silk apparel market. The developments in the market are confirming the need of our strategy. The Group will endeavour to establish a modernized silk apparel enterprise, to strengthen the glorious history of Chinese silk, and to accomplish the strategic targets of Hangzhou Municipal Committee and Municipal Government. This is a most challenging and demanding mission. Nevertheless, the Group is committed in achieving the adorable target of becoming the world's top class silk enterprise and world class apparel enterprise; with full back up from 12,000 employees who contributed wholeheartedly towards this historical mission. The Group will endeavour to ensure its success.

I would like to take this opportunity to express my gratitude to the shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank the staff from various regions for their dedication and contribution in achieving the corporate goals.

Lam Foo Wah

Chairman

Hong Kong, 13 April 2006

