

Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and of the Group for the year ended 31st July, 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company and of the Group are the manufacture and sale of garments and property investment. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by business segment and geographical areas of the operations for the year ended 31st July, 2006 is set out in note 5 to the financial statements.

FINANCIAL RESULTS

The Group's profit for the year ended 31st July, 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 68.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31st July, 2006 (2005: Nil). No interim dividend was declared by the Company for the year.

SUMMARY OF FINANCIAL INFORMATION

Following is a summary of the published consolidated results and assets and liabilities of the Group for the five financial years from 2002 to 2006:

	Year ended 31st July,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Revenue	<u>385,809</u>	<u>396,862</u>	<u>459,562</u>	<u>484,063</u>	<u>595,320</u>
Profit/(loss) attributable to equity holders of the parent	<u>110,019</u>	<u>127,205</u>	<u>47,896</u>	<u>(58,768)</u>	<u>19,473</u>
	As at 31st July,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Total assets	<u>728,564</u>	<u>575,954</u>	<u>476,218</u>	<u>416,510</u>	<u>517,646</u>
Total liabilities	<u>176,945</u>	<u>134,458</u>	<u>162,106</u>	<u>150,849</u>	<u>193,217</u>
Equity attributable to equity holders of the parent	<u>551,619</u>	<u>441,496</u>	<u>314,112</u>	<u>265,661</u>	<u>324,429</u>
	<u>728,564</u>	<u>575,954</u>	<u>476,218</u>	<u>416,510</u>	<u>517,646</u>

Report of the Directors

DIRECTORS

The directors of the Company as at the date of this report and those who were in office during the year are as follows:

Executive directors

Lam Kin Ming (*Chairman and Chief Executive Officer*) (re-designated on 17th February, 2006)
 Lam Kin Ngok, Peter
 Lam Kin Hong, Matthew
 Lam Wai Shan, Vanessa (*Deputy Chief Executive Officer*) (appointed on 17th February, 2006)

Non-executive directors

Shiu Kai Wah
 Chiu Wai
 Wan Yee Hwa, Edward *
 Yeung Sui Sang *
 Chow Bing Chiu *
 U Po Chu (resigned on 6th October, 2005)

* Independent non-executive directors

In accordance with Article 94 of the Company's Articles of Association, Ms. Lam Wai Shan, Vanessa, retires at the forthcoming annual general meeting and, being eligible, offers herself for re-election.

In accordance with Article 100 of the Company's Articles of Association, Mr. Shiu Kai Wah retires by rotation at the forthcoming annual general meeting. Mr. Shiu will not be offering himself for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the financial statements headed "Related Party Transactions", no director had a material interest, either direct or indirect, in any significant contract to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding company was a party at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Hong, Matthew held interests and/or directorships in companies engaged in the business of property investment in Hong Kong and the Mainland, and garment manufacturing and related businesses.

As the board of directors of the Company ("the Board") is independent from the boards of directors of the aforesaid companies and none of the above directors of the Company can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors:

Mr. Lam Kin Ming, Chairman and Chief Executive Officer, aged 69, was appointed a director in December 1993 and elected Chairman on 25th April, 2005. The position of Mr. Lam was re-designated as Chairman and Chief Executive Officer with effect from 17th February, 2006. He is the chairman of Lai Sun Garment (International) Limited ("LSG") (the ultimate holding company of the Company up to 29th May, 2006) and a non-executive director of Lai Sun Development Company Limited ("LSD") and eSun Holdings Limited ("eSun"), and the deputy chairman of Lai Fung Holdings Limited ("LFH"). LSG, LSD, eSun and LFH are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam is the elder brother of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Hong, Matthew. He is also the father of Ms. Lam Wai Shan, Vanessa. He has been involved in day-to-day management in the garment business since 1958.

Mr. Lam Kin Ngok, Peter, aged 49, was appointed a director in October 1987. He is the deputy chairman of Lai Sun Garment (International) Limited ("LSG") (the ultimate holding company of the Company up to 29th May, 2006), the chairman of Lai Sun Development Company Limited ("LSD") and Lai Fung Holdings Limited ("LFH"), and an executive director of eSun Holdings Limited ("eSun"). LSG, LSD, LFH and eSun are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam has extensive experience in property and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association, a council member of the Anglo-Hong Kong Trust and a non-official member of the Film Development Committee. Mr. Lam is the younger brother of Mr. Lam Kin Ming.

Mr. Lam Kin Hong, Matthew, aged 38, was appointed a director in July 1999. He is also an executive director of Lai Sun Garment (International) Limited ("LSG") (the ultimate holding company of the Company up to 29th May, 2006), and an executive director and executive deputy chairman of Lai Fung Holdings Limited ("LFH"). LSG and LFH are listed on the Main Board of The Stock Exchange of Hong Kong Limited. He attained a Bachelor of Science Degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development fields and corporate finance fields in Hong Kong and China. Mr. Lam is the younger brother of Mr. Lam Kin Ming and Mr. Lam Kin Ngok, Peter.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Ms. Lam Wai Shan, Vanessa, Deputy Chief Executive Officer, aged 35, is a daughter of Mr. Lam Kin Ming and was appointed a director on 17th February, 2006. Ms. Lam holds a Bachelor of Arts Degree from Scripps College, California, USA and graduated from the Fashion Institute of Design and Merchandising in Los Angeles. She has over 10 years of experience in the fashion industry. Prior to joining the Company in 1998, she worked for two famous London-based design houses — Alexander McQueen and Julien MacDonald. Ms. Lam has received numerous awards for her work in the industry and charity work. She has not held any other directorships in listed public companies in the last three years. Ms. Lam does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Ms. Lam has a service contract with the Company with no fixed term of service. She will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company in accordance with the provisions of the Articles of Association of the Company. Ms. Lam is currently entitled to annual emoluments of HK\$2,266,000 and a discretionary bonus, as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions. For the purpose of her re-election as a director of the Company at the forthcoming annual general meeting, there is no information which is discloseable nor is/was Ms. Lam involved in any of the matters required to be disclosed pursuant to any of the requirements under Rule 13.51(2) of the Listing Rules, and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

Non-executive directors:

Mr. Shiu Kai Wah, aged 74, was appointed a director in December 1993. He is also an executive director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company up to 29th May, 2006). Mr. Shiu has over 30 years' experience in management in the garment business.

Mr. Chiu Wai, aged 75, was appointed a director in December 1993. He is also a non-executive director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company up to 29th May, 2006). Mr. Chiu has over 45 years' experience in production management.

Mr. Wan Yee Hwa, Edward, aged 70, was appointed a director in December 1993 and is an independent non-executive director. He is also an independent non-executive director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company up to 29th May, 2006). He is a fellow of Hong Kong Institute of Certified Public Accountants and has been a certified public accountant in Hong Kong since 1961.

Mr. Yeung Sui Sang, aged 68, was appointed an independent non-executive director in October 2001. Before joining the Lai Sun Group in March 1988, Mr. Yeung had worked in the civil service for over 30 years. He first joined Lai Sun Garment (International) Limited ("LSG") (the ultimate holding company of the Company up to 29th May, 2006) as administration manager, and was later appointed Lai Sun Group's administration controller. He was also appointed to the boards of LSG, Asia Television Limited and later eSun Holdings Limited. He retired from the Lai Sun Group in June 1998.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-executive directors: (continued)

Mr. Chow Bing Chiu, aged 55, was appointed an independent non-executive director in September 2004. He is also an independent non-executive director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company up to 29th May, 2006). Mr. Chow obtained his Bachelor of Law degree in 1980 and qualified as a solicitor in Hong Kong in 1983. He is the sole proprietor of B.C. Chow & Co., Solicitors, in Hong Kong. He is also a China-appointed attesting officer.

Senior management:

Miss Chan Lai Ping, Connie, aged 40, is the Chief Financial Officer and qualified accountant of the Company. Miss Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants of the United Kingdom. She joined the Company in September 1999. Prior to joining the Company, she served as an associate director of a merchant bank.

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, holding company or fellow subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS

As at 31st July, 2006, the following director and chief executive of the Company was interested, or was deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company, to be notified to the Company and the Stock Exchange:

(1) Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares		Total	Percentage
			Corporate Interests	Capacity		
Lam Kin Ming	Nil	Nil	314,800,000 (Note)	Beneficial owner	314,800,000	51.01%

Note: Rich Promise Limited ("RPL") beneficially owned 314,800,000 shares in the Company. Mr. Lam Kin Ming was deemed to be interested in 314,800,000 shares in the Company by virtue of his 100% interest in RPL.

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DIRECTORS' INTERESTS (continued)

(2) Associated Corporation

Rich Promise Limited ("RPL")

Name of Director	Personal Interests	Long positions in the shares of RPL			Total	Percentage
		Family Interests	Corporate Interests	Capacity		
Lam Kin Ming	1	Nil	Nil	Beneficial owner	1	100%

Save as disclosed above, as at 31st July, 2006, none of the directors or chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2006, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Long positions in the shares		
		Nature of Interests	Number of Shares	Percentage
Rich Promise Limited ("RPL")	Beneficial owner	Corporate	314,800,000	51.01%
Lam Kin Ming	Beneficial owner	Corporate	314,800,000	51.01%
			(Note)	

Note: Mr. Lam Kin Ming was deemed to be interested in 314,800,000 shares by virtue of his 100% interest in RPL.

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31st July, 2006.

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CONNECTED TRANSACTIONS

Related party transactions, which fall within the definition stipulated in the Hong Kong Accounting Standard 24 on “Related Party Disclosures”, undertaken by the Group during the year are set out in note 4 to the financial statements. The transactions included in note 31 to the financial statements also constitute connected transactions as defined under the Listing Rules.

- (1) As reported in the annual report of the Company for the year ended 31st July, 2005, on 29th June, 2004, the Group entered into a tenancy agreement and a license agreement with Lai Sun Textiles Company Limited (“LST”) for certain units and car parking spaces at Park Sun Building, No. 97-107 Wo Yi Hop Road, Kwai Chung, New Territories. The terms of both the tenancy agreement and license agreement were for two years commencing from 1st July, 2004.

78.67% of the issued share capital of LST was held by the late Mr. Lim Por Yen, a director of the Company, before he passed away in February 2005. LST ceased to be an associate of any director or substantial shareholder of the Company following the death of Mr. Lim in February 2005 and the aforesaid tenancy and license agreements ceased to be a continuing connected transaction for the Company.

- (2) On 28th February, 2006, the Company, Lai Sun Garment (International) Limited (“LSG”) (the ultimate holding company of the Company up to 29th May, 2006) and Unipress Investments Limited (“Unipress”), a wholly-owned subsidiary of LSG, entered into a conditional development agreement (the “Development Agreement”) in connection with the redevelopment of a property at 79 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong (the “Property”) owned by the Group and used for industrial purposes. It was planned to redevelop the Property into a commercial/office building (the “New Building”).

Under the Development Agreement:

- (i) The Company shall be responsible for payment to the relevant government authority of the land premium of HK\$274,070,000 in respect of a lease modification granted by the relevant government authority and accepted on 14th January, 2006;
- (ii) Unipress shall pay the Company a sum of HK\$137,035,000, representing 50% of the land premium;
- (iii) The Company grants to Unipress the exclusive right to develop the Property;
- (iv) Unipress shall be responsible for demolishing the existing building and constructing the New Building in accordance with the preliminary plans for the development of the Property as agreed by Unipress and the Company, and shall bear all development and construction costs and project management fee in connection with the construction and completion of the New Building;

Report of the Directors

CONNECTED TRANSACTIONS (continued)

(2) (continued)

- (v) If construction finance is required by Unipress for financing the development and construction cost, the Group has agreed to provide or procure such security over or in relation to the Property as may reasonably be required by the relevant lending institution(s) and LSG is expected to provide a corporate guarantee as security for such finance; and
- (vi) In consideration of the Group contributing the Property as security for the construction finance, Unipress shall make a quarterly payment of HK\$2,130,000 to the Group during the period from delivery of vacant possession of the Property to completion of construction of the New Building.

On completion of the construction of the New Building, the ownership of the New Building shall be allocated and distributed between Unipress and the Group in the proportion of 1 to 1.4 in terms of the gross floor area. Assuming a total gross floor area of 240,000 square feet of the New Building as currently anticipated, Unipress shall be entitled to the ownership of such portion of the New Building with 100,000 square feet gross floor area, comprised mainly retail and restaurant space, and the Group shall be entitled to the remaining portion of the New Building with 140,000 square feet gross floor area, comprised mainly office space. In addition, the Group shall assign the ownership of all car parking spaces to an investment holding company which will be owned in equal shares by the Group and LSG.

Since LSG held a 54.93% equity interest in the Company prior to 29th May, 2006 and was a substantial shareholder and a connected person of the Company, the Development Agreement constituted a connected transaction for the Company. The Development Agreement was approved by independent shareholders of the Company at an extraordinary general meeting held on 17th May, 2006.

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ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 4 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group and the Company during the year are set out in note 15 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries at the balance sheet date are set out in note 18 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group and the Company at the balance sheet date are set out in note 22 to the financial statements.

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MAJOR CUSTOMERS AND SUPPLIERS

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

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

DISTRIBUTABLE RESERVES

As at 31st July, 2006, the Company has reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$5,937,000.

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

During the financial year ended 31st July, 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31st July, 2006.

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CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 22 of this Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

AUDITORS

Ernst & Young will retire at the forthcoming annual general meeting and a resolution for their reappointment as auditors of the Company will be proposed at the said meeting.

On behalf of the Board

Lam Kin Ming

Chairman and Chief Executive Officer

Hong Kong

10th November, 2006