

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, 2005.

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, 2005 is set out in note 6 to the financial statements.

FINANCIAL RESULTS

The Group's profit for the year ended 31st July, 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 66.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31st July, 2005 (2004: 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 2001 to 2005:

	Year ended 31st July,				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	<u>396,862</u>	<u>459,562</u>	<u>484,063</u>	<u>595,320</u>	<u>679,939</u>
Profit/(loss) attributable to equity holders of the parent	<u>127,205</u>	<u>47,896</u>	<u>(58,768)</u>	<u>19,473</u>	<u>4,629</u>
	As at 31st July,				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	<u>575,954</u>	<u>476,218</u>	<u>416,510</u>	<u>517,646</u>	<u>614,139</u>
Total liabilities	<u>134,458</u>	<u>162,106</u>	<u>150,849</u>	<u>193,217</u>	<u>203,961</u>
Equity attributable to equity holders of the parent	<u>441,496</u>	<u>314,112</u>	<u>265,661</u>	<u>324,429</u>	<u>410,178</u>
	<u>575,954</u>	<u>476,218</u>	<u>416,510</u>	<u>517,646</u>	<u>614,139</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*)

Lam Kin Ngok, Peter

Lam Kin Hong, Matthew

Lim Por Yen (passed away on 18th February, 2005)

Non-executive directors

Shiu Kai Wah

Chiu Wai

Wan Yee Hwa, Edward *

Yeung Sui Sang *

Chow Bing Chiu * (appointed on 30th September, 2004)

U Po Chu (resigned on 6th October, 2005)

* *Independent non-executive directors*

In accordance with Article 100 of the Company's Articles of Association, Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Hong, Matthew retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 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 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 garment manufacturing and related businesses.

As the Board is independent from the boards 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.

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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, aged 68, was appointed a director in December 1993 and elected Chairman on 25th April, 2005. He is the chairman of Lai Sun Garment (International) Limited ("LSG") (the ultimate holding company of the Company), and is also 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"). Mr. Lam is also an alternate director to certain directors of 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 Miss Lam Wai Shan, Vanessa. He has been involved in day-to-day management in the garment business since 1958. Mr. 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. Mr. Lam has a service contract with the Company with no fixed term of service. He will be subject to retirement by rotation and will also 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. Mr. Lam is currently entitled to annual emoluments of HK\$4,844,824 and a discretionary bonus, to be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Lam Kin Ngok, Peter, aged 48, 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), the chairman of Lai Sun Development Company Limited ("LSD"), an executive director of eSun Holdings Limited ("eSun") and the 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 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 and a council member of the Anglo Hong Kong Trust. Mr. Lam is the younger brother of Mr. Lam Kin Ming. Mr. Lam has interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Details are set out in the "Directors' Interests" and "Substantial Shareholders' and Other Persons' Interests" sections. Mr. Lam does not have a service contract with the Company but he 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. Mr. Lam is entitled to receive such remuneration and 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.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

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), and a 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. He does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lam has a service contract with the Company with no fixed term of service. He will be subject to retirement by rotation and will also 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. Mr. Lam is currently entitled to annual emoluments of HK\$790,000 and a discretionary bonus, to be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Non-executive directors:

Mr. Shiu Kai Wah, aged 73, 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). Mr. Shiu has over 30 years’ experience in management in the garment business.

Mr. Chiu Wai, aged 74, 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). Mr. Chiu has over 45 years’ experience in production management.

Mr. Wan Yee Hwa, Edward, aged 69, 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) and Lai Fung Holdings Limited. 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 67, 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”) 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 Lai Sun Group in June 1998.

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. 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.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management:

Miss Lam Wai Shan, Vanessa, aged 34, is the Deputy Chief Executive Officer of the Company, responsible for overall business operations and development. Miss Lam holds a Bachelor of Arts Degree from the Scripps College, California, USA and graduated from the Fashion Institute of Design and Merchandising in Los Angeles. Miss Lam has over 10 years of experience in the fashion industry. Prior to joining the Company in 1998, she worked for two London-based design houses — Alexander McQueen and Julien MacDonald. She is the daughter of Mr. Lam Kin Ming.

Miss Chan Lai Ping, Connie, aged 39, is the Financial Controller 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, 2005, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives 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

	Personal Interests	Family Interests	Long positions in the shares		Total	Percentage
			Corporate Interests	Capacity		
Lam Kin Ngok, Peter	Nil	Nil	338,982,809 (Note 1)	Beneficial owner	338,982,809	54.93%
U Po Chu (Note 2)	Nil	Nil	338,982,809 (Note 1)	Beneficial owner	338,982,809	54.93%

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DIRECTORS' INTERESTS (continued)

(1) Company (continued)

Notes:

- Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 338,982,809 shares in the Company. Mr. Lam Kin Ngok, Peter and Madam U Po Chu were deemed to be interested in 338,982,809 shares in the Company by virtue of their respective 50% interest in Wisdoman Limited, which held approximately 33.73% of the issued share capital of LSG.
- Madam U Po Chu resigned as a director on 6th October, 2005.

(2) Associated Corporation

Lai Sun Garment (International) Limited ("LSG")

Long positions in the shares of LSG

	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lam Kin Ming	5,008,263	Nil	Nil	Beneficial owner	5,008,263	0.31%
Lam Kin Ngok, Peter	124,644,319	Nil	545,615,718 (Note 1)	Beneficial owner	670,260,037	41.44%
Chiu Wai	199,600	Nil	Nil	Beneficial owner	199,600	0.01%
U Po Chu (Note 2)	4,127,625	Nil	545,615,718 (Note 1)	Beneficial owner	549,743,343	33.99%

Notes:

- Mr. Lam Kin Ngok, Peter and Madam U Po Chu were deemed to be interested in 545,615,718 LSG shares by virtue of their respective 50% interest in Wisdoman Limited which owned those shares in LSG.
- Madam U Po Chu resigned as a director on 6th October, 2005.

Save as disclosed above, as at 31st July, 2005, 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 of equity derivatives 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.

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2005, 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 equity derivatives 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		Percentage
		Nature	Number of shares	
Joy Mind Limited	Beneficial owner	Corporate Interest	336,316,809 (Note 1)	54.50%
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate Interest	338,982,809 (Note 1)	54.93%
Wisdoman Limited	Beneficial owner	Corporate Interest	338,982,809 (Note 2)	54.93%
Lam Kin Ngok, Peter	Beneficial owner	Corporate Interest	338,982,809 (Note 3)	54.93%
U Po Chu	Beneficial owner	Corporate Interest	338,982,809 (Note 3)	54.93%

Notes:

1. Joy Mind Limited was a wholly-owned subsidiary of LSG. Its interest in the Company constituted part of the interest held by LSG in the Company.
2. This parcel of shares refers to the same parcel of shares held by LSG and its wholly-owned subsidiary since Wisdoman Limited held 33.73% of the issued share capital of LSG.
3. Mr. Lam Kin Ngok, Peter and Madam U Po Chu were deemed to be interested in 338,982,809 shares by virtue of their respective 50% interest in Wisdoman Limited which held approximately 33.73% of the issued share capital of LSG.

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 equity derivatives of the Company as at 31st July, 2005.

CONTINUING 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 5 to the financial statements. The transactions included in note 30 to the financial statements also constitute connected transactions as defined under the Listing Rules.

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CONTINUING CONNECTED TRANSACTIONS (continued)

The Group has entered into the following continuing connected transactions:

- (i) On 29th June, 2004, the Company entered into a tenancy agreement as the Tenant with Lai Sun Textiles Company Limited as the Landlord for the premises known as unit 1B, whole of 2nd floor, units 402-3 and units 407-10, Park Sun Building, Nos.97-107 Wo Yi Hop Road, Kwai Chung, N.T. (covering a gross floor area of approximately 60,400 square feet) at a rental of HK\$169,120.00 per month (inclusive of management fee, rates and government rent). The term of the tenancy agreement was for two years fixed commencing from 1st July, 2004.
- (ii) On 29th June, 2004, the Company entered into a license agreement as the Licensee with Lai Sun Textiles Company Limited as the Licensor for the car parking space known as the portion of car parking spaces Nos. L5 and L6 and loading bay G2b on the Ground floor of Park Sun Building, Nos.97-107 Wo Yi Hop Road, Kwai Chung, N.T., at a license fee of HK\$7,500.00 per month. The term of the license agreement was for two years commencing from 1st July, 2004 to 30th June, 2006 subject to early termination by one month's written notice.

The entire issued share capital of Lai Sun Textiles Company Limited was held by the late Mr. Lim Por Yen (78.67%), Madam U Po Chu (6.67%), Mr. Lam Kin Ngok, Peter (6.67%), Mr. Lam Kin Ming (1.33%) and Miss Lam Shook Yue, Mabel (6.67%) respectively. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above transactions.

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- (iii) On 24th September, 2003, the Company entered into a tenancy agreement (the "Tenancy Agreement") as the Tenant with Lai Sun Development Company Limited ("LSD") as the Landlord for the premises known as unit 1001, 10th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong at a rental of HK\$137,836 per month (exclusive of rates, government rent, air-conditioning and management charges and other outgoings). The term of the Tenancy Agreement was for three years commencing from 1st October, 2003.

The above transactions under paragraphs (i) to (iii) would facilitate the operations of the Group.

The Tenancy Agreement was a continuing connected transaction of the Company under Chapter 14A of the Listing Rules prior to 7th December, 2004 as LSD was an associate of Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company, and thus a connected person of the Company. However, on 7th December, 2004, being the date on which LSD completed a debt settlement with its creditors, LSD ceased to be an associate of LSG and thus ceased to be a connected person of the Company since that date. Hence, the Tenancy Agreement ceased to be a continuing connected transaction of the Company as from 7th December, 2004. No previous press announcement of the Company had been published in respect of the Tenancy Agreement when it was entered into.

The transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;

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CONTINUING CONNECTED TRANSACTIONS (continued)

- (b) on normal commercial terms; and
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have provided a confirmation in accordance with the Listing Rules.

ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 5 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 15 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 16 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.

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, 2005, the Company did not have any 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\$4,942,000.

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

During the financial year ended 31st July, 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

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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, 2005.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to 1st January, 2005 throughout the accounting period covered by the annual report. The non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

The Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "CG Code") on 1st January, 2005 but transitional arrangements for disclosure are applicable in respect of accounting periods commencing on or after 1st January, 2005. The Company has taken relevant actions to comply with the CG Code.

The annual results of the Company for the year ended 31st July, 2005 have been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive directors of the Company, namely, Mr. Wan Yee Hwa, Edward, Mr. Yeung Sui Sang and Mr. Chow Bing Chiu.

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.

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors (the "Code") on terms no less exacting than the standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors who have confirmed their compliance with the required standard set out in the Code during the year ended 31st July, 2005.

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

Hong Kong

18th November, 2005