

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in garment manufacturing and trading, branded products distribution, property investment and management, property development, provision of hospitality management services and investing activities. The Company, its subsidiaries and its jointly controlled entities are hereinafter collectively referred to as the Group.

The Group's jointly controlled entities and associates are principally engaged in property development.

Details of the Company's principal subsidiaries, associates and jointly controlled entities at 31 December 2006 are set out in notes 42 to 44 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 43.

An interim dividend of HK5.0 cents (2005: HK1.5 cents) per share, amounting to a total of about HK\$26.3 million, was paid to shareholders on 20 October 2006.

The Directors recommend the payment of a final dividend of HK6.5 cents per share for the year ended 31 December 2006 (2005: HK5.5 cents per share) to shareholders whose names appear on the Register of Members of the Company on 8 June 2007, which together with the interim dividend payment amounts to a total of approximately HK\$60.5 million. Subject to the passing of the relevant resolution at the forthcoming annual general meeting, such dividend will be payable to shareholders on 14 June 2007.

## SHARE CAPITAL

Movements in the authorised and issued share capital of the Company are set out in note 32 to the financial statements.

## RESERVES

Movements in the reserves of the Group and of the Company are set out in note 34 to the financial statements.

# DIRECTORS' REPORT

## INVESTMENT PROPERTIES

The Group revalued its investment properties as at 31 December 2006 on an open market value basis. Movements in the investment properties during the year are set out in note 15 to the financial statements.

A summary of the properties held by the Group for investment purposes at 31 December 2006 is set out on page 116.

## PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group as at 31 December 2006 are set out on page 117. Movements in the properties under development during the year are set out in note 16 to the financial statements.

## OTHER PROPERTIES, PLANT AND EQUIPMENT

Details of other properties, plant and equipment of the Group as at 31 December 2006 are set out in note 17 to the financial statements.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$0.6 million.

## DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

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

### **Executive directors:**

Cheng Wai Chee, Christopher *GBS JP (Chairman)*

Cheng Wai Sun, Edward *JP (Chief Executive)*

Cheng Man Piu, Francis

Ng Tak Wai, Frederick

Au Hing Lun, Dennis

### **Non-executive directors:**

Cheng Wai Keung

Kwok Ping Luen, Raymond

Wong Yick Kam, Michael

(also an alternate to Kwok Ping Luen, Raymond)

Hong Pak Cheung, William

### **Independent non-executive directors:**

Simon Murray *CBE*

Fang Hung, Kenneth *GBS JP*

Yeung Kit Shing, Jackson

In accordance with bye-law 100 of the Company's Bye-laws, Mr. Cheng Wai Sun, Edward, Mr. Au Hing Lun, Dennis, Mr. Ng Tak Wai, Frederick and Mr. Fang Hung, Kenneth will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the directors being 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 Group within one year without payment of compensation, other than statutory compensation.

## PUBLIC FLOAT

The Listing Rules normally requires issuers to maintain at least 25% of their listed securities in public hands at all times. Based on information that was publicly available to the Company and within the knowledge of the Directors of the Company, as at the latest practicable date prior to the issue of this annual report, the percentage of the Company's shares in public hands was 24.6% being 0.4% below the prescribed minimum of 25%.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2006, the interests or short positions of the Directors and the Chief Executive of the Company in the Shares, underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

### Long positions in the shares of the Company

Name of Directors	Number of ordinary shares held					Percentage of the Company's issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Aggregate interests	
Cheng Wai Chee, Christopher	2,225,999	–	148,439,086 (Note a)	110,595,862 (Note b)	261,260,947	49.61%
Cheng Wai Sun, Edward	2,150,000	–	–	110,595,862 (Note b)	112,745,862	21.41%
Cheng Man Piu, Francis	–	–	–	110,595,862 (Note b)	110,595,862	21.00%
Cheng Wai Keung	–	–	–	110,595,862 (Note b)	110,595,862	21.00%
Ng Tak Wai, Frederick	188,500	762,000	–	–	950,500	0.18%
Au Hing Lun, Dennis	421,500	–	–	–	421,500	0.08%

## DIRECTORS' REPORT

### Notes:

- (a) Mr. Cheng Wai Chee, Christopher was deemed to be interested in 148,439,086 ordinary shares of the Company beneficially owned by Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited by virtue of his corporate interests in these companies through Wing Tai (Cheng) Holdings Limited, Renowned Development Limited and Wing Tai Corporation Limited. Bestime Resources Limited, Pofung Investments Limited and Broxbourne Assets Limited were the beneficial owners of 68,747,996, 66,698,122 and 12,992,968 ordinary shares of the Company respectively.
- (b) Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung were beneficiaries of a family trust which assets include indirect interests in 110,595,862 ordinary shares of the Company beneficially owned by Brave Dragon Limited and Wing Tai Garment Manufactory (Singapore) Pte Limited as set out in the section headed "Substantial Shareholders Interests and Short Positions in Shares" below.

Details of the share options granted under the Share Option Scheme and of the incentive shares awarded under the Share Incentive Scheme to the Directors of the Company are set out on page 29 in the sections of "Share Option Scheme" and "Share Incentive Scheme" of this annual report.

All the interests in shares and underlying shares of the Company disclosed above under this section represent long position in the shares of the Company. Save as disclosed above, as at 31 December 2006, none of the Directors nor the Chief Executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have 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 Model Code.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or the Chief Executive of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the Directors, the Chief Executive, their spouses or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2006, the following persons (other than the Directors and the Chief Executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO:

<b>Name of shareholders</b>	<b>Long/Short position</b>	<b>Number of ordinary shares beneficially held</b>	<b>Percentage in the issued share capital of the Company</b>
Brave Dragon Limited	Long	106,345,862	20.19% (Note 1)
Wing Tai Holdings Limited	Long	110,595,862	21.00% (Note 2)
Deutsche Bank International Trust Co. (Jersey) Limited	Long	110,595,862	21.00% (Note 2)
Deutsche Bank International Trust Co. (Cayman) Limited	Long	110,595,862	21.00% (Note 2)
Wing Tai Asia Holdings Limited	Long	110,595,862	21.00% (Note 2)
Wing Sun Development Private Limited	Long	110,595,862	21.00% (Note 2)
Terebene Holdings Inc.	Long	110,595,862	21.00% (Note 2)
Winlyn Investments Pte Ltd	Long	110,595,862	21.00% (Note 2)
Bestime Resources Limited	Long	68,747,996	13.05% (Note 3)
Pofung Investments Limited	Long	66,698,122	12.66% (Note 3)
Wing Tai Corporation Limited	Long	135,446,118	25.72% (Note 3)
Renowned Development Limited	Long	135,446,118	25.72% (Note 3)
Wing Tai (Cheng) Holdings Limited	Long	148,439,086	28.18% (Note 4)
Triple Surge Limited	Long	28,260,000	5.37% (Note 5)
Fourseas Investments Limited	Long	47,413,992	9.00% (Note 5)
Wesmore Limited	Long	83,946,158	15.94% (Note 6)
Sun Hung Kai Properties Limited	Long	131,504,150	24.97% (Note 6)

## DIRECTORS' REPORT

### Notes:

- (1) Wing Tai Holdings Limited beneficially owned 89.4% of the issued shares of Brave Dragon Limited and 100% of the issued shares of Wing Tai Garment Manufactory (Singapore) Pte Limited which owned 4,250,000 ordinary shares of the Company.
- (2) Deutsche Bank International Trust Co. (Jersey) Limited was the trustee of a family trust which held all units of a unit trust ("Unit Trust"). Deutsche Bank International Trust Co. (Cayman) Limited was the trustee of the Unit Trust which beneficially owned 100% of the issued shares of Wing Tai Asia Holdings Limited and 61.3% of the issued shares of Terebene Holdings Inc. Wing Tai Asia Holdings Limited, through its wholly-owned subsidiary, Wing Sun Development Private Limited, held 28.1% of the issued shares of Wing Tai Holdings Limited. Terebene Holdings Inc. held 59.3% of the issued shares of Winlyn Investment Pte Ltd. which in turn held 9.2% of the issued shares of Wing Tai Holdings Limited.
- (3) Wing Tai Corporation Limited beneficially owned 100% of the issued share capital of Bestime Resources Limited and Pofung Investments Limited and, therefore, it was deemed to be interested in the shares they held in the Company by virtue of its corporate interest in them.

By virtue of the corporate interest of Renowned Development Limited in Wing Tai Corporation Limited, the former was deemed to be interested in the latter's interest in the shares of the Company.

- (4) By virtue of the corporate interest of Wing Tai (Cheng) Holdings Limited in Renowned Development Limited and Broxbourne Assets Limited, Wing Tai (Cheng) Holdings Limited was deemed to be interested in the interest of Renowned Development Limited and Broxbourne Assets Limited in the shares of the Company. Broxbourne Assets Limited beneficially owned 12,992,968 ordinary shares of the Company.
- (5) Fourseas Investments Limited beneficially owned 100% of the issued share capital of Soundworld Limited, Units Key Limited and Triple Surge Limited and, therefore, it was deemed to be interested in the shares they held in the Company by virtue of its corporate interest in them. Soundworld Limited was the beneficial owner of 15,651,992 ordinary shares of the Company, Units Key Limited was the beneficial owner of 3,502,000 ordinary shares of the Company and Triple Surge Limited was the beneficial owner of 28,260,000 ordinary shares of the Company.
- (6) Sun Hung Kai Properties Limited ("SHKP") beneficially owned 100% of the issued share capital of Wesmore Limited, Fourseas Investments Limited and Junwall Holdings Ltd. which in turn owned 100% of the issued share capital of Techglory Ltd. By virtue of the corporate interest of SHKP in the aforesaid companies, SHKP was deemed to be interested in interest of Wesmore Limited, Fourseas Investments Limited and Junwall Holdings Ltd. in the shares of the Company. Techglory Ltd. was the beneficial owner of 144,000 ordinary shares of the Company.

All the interests in shares disclosed under this section represent long position in the shares of the Company. Save as disclosed above, as at 31 December 2006, the Company is not aware of any other person (other than the Directors and the Chief Executive of the Company) who has an interest or a short position in the shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and have been recorded in the register kept by the Company pursuant to section 336 of the SFO.

## SHARE OPTION SCHEME

Details of the share options granted to an independent non-executive director under the Share Option Scheme are as follows:–

Name of director	Date of grant	Number of ordinary shares issuable under the options granted			Exercisable period	Exercise price per ordinary share
		As at 1 January 2006	Exercised during the year	As at 31 December 2006		
Simon Murray	19.4.2005	1,000,000	–	1,000,000	19.4.2006 to 18.4.2010	HK\$2.125

Details of the Share Option Scheme of the Company are set out in note 33 to the financial statements.

## SHARE INCENTIVE SCHEME

Details of the incentive shares awarded to executive directors under the Share Incentive Scheme are as follows:–

Name of directors	Date of award	As at 1 January 2006	Awards made during the year	Awards vested and exercised during the year	As at 31 December 2006	Vesting period
Cheng Wai Chee, Christopher	13.9.2005	600,000	–	(150,000)	450,000	13.9.2006 to 12.9.2008
	25.4.2006	–	546,000	–	546,000	12.1.2007 to 11.1.2009
Cheng Wai Sun, Edward	13.9.2005	600,000	–	(150,000)	450,000	13.9.2006 to 12.9.2008
	25.4.2006	–	546,000	–	546,000	12.1.2007 to 11.1.2009
Ng Tak Wai, Frederick	13.9.2005	90,000	–	(22,500)	67,500	13.9.2006 to 12.9.2008
	25.4.2006	–	59,000	–	59,000	12.1.2007 to 11.1.2009
Au Hing Lun, Dennis	13.9.2005	150,000	–	(37,500)	112,500	13.9.2006 to 12.9.2008
	25.4.2006	–	110,000	–	110,000	12.1.2007 to 11.1.2009

Note: Subscription price per share is the nominal value of the ordinary share of the Company. Fund for subscription of ordinary shares will be provided by the Company when the executive directors exercise the right to subscribe for ordinary shares of the Company.

Details of the Share Incentive Scheme of the Company are set out in note 33 to the financial statements.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

The interests of Directors of the Company in competing business required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis are substantial shareholders of Wing Tai (Cheng) Holdings Limited and Pacific Investment Exponents Inc. (the "Group One Companies"). Mr. Cheng Wai Chee, Christopher and Mr. Cheng Man Piu, Francis are directors of Wing Tai (Cheng) Holdings Limited. Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward and Mr. Cheng Man Piu, Francis are directors of Pacific Investment Exponents Inc.

Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Garment Industrial Holdings Limited (the "Group Two Company"). Mr. Cheng Wai Chee, Christopher and Mr. Cheng Man Piu, Francis are directors of the Group Two Company.

Mr. Cheng Wai Chee, Christopher, Mr. Cheng Wai Sun, Edward, Mr. Cheng Man Piu, Francis and Mr. Cheng Wai Keung are beneficiaries of a family trust which is a substantial shareholder of Wing Tai Asia Holdings Limited and Terebene Holdings Inc. (the "Group Three Companies"). Mr. Cheng Wai Keung is a director of the Group Three Companies.

Certain companies controlled by the Group One Companies and the Group Two Company carry on garment business in China which may be regarded as competitive to the Group's apparel business.

Certain companies affiliated with the Group Three Companies carry on garment business in Malaysia which might be regarded as competitive to the Group's apparel business.

The Group's management team is separated from and independent of those of the Group One Companies, Group Two Company and Group Three Companies. The Group's management team has been instructed that whatever businesses to be transacted with the Group One Companies, Group Two Company, Group Three Companies and/or any companies controlled thereby or affiliated therewith shall be transacted at arm's length. Furthermore, the Company's independent non-executive directors and the members of the Company's Audit Committee will ensure that the Group is capable of carrying on its business independently of, and at arm's length from the aforesaid garment businesses.



Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward are non-executive directors of and interested in Winsor Properties Holdings Limited (“WPHL”). Mr. Au Hing Lun, Dennis is an alternate director to Mr. Cheng Wai Chee, Christopher and Mr. Cheng Wai Sun, Edward in WPHL. The industrial buildings rental business and property development business of WPHL may be regarded as competitive to the Group’s property rental business and property development business.

The Group’s management team is separated from and independent of the management team of WPHL. The Group’s management team has been instructed that whatever businesses to be transacted with WPHL and/or any companies controlled thereby or affiliated therewith shall be transacted at arm’s length. The industrial buildings rented out by the Group and WPHL are targeting at different customer bases and different market segments. Furthermore, the independent non-executive directors of the Company and the members of the Company’s Audit Committee will ensure that the Group is capable of carrying on its businesses independently of, and at arm’s length from the aforesaid industrial property rental business and property development business of WPHL.

Mr. Kwok Ping Luen, Raymond and Mr. Wong Yick Kam, Michael are directors of Sun Hung Kai Properties Limited (“SHKP”). Businesses of SHKP consist of property development and investment. Only in this respect they are regarded to be interested in the relevant competing business with the Group.

Mr. Kwok Ping Luen, Raymond is a director of Transport International Holdings Limited (“TIH”). Businesses of TIH consist of property development and investment. Only in this respect he is regarded to be interested in the relevant competing business with the Group.

The aforesaid competing businesses, in which Mr. Kwok Ping Luen, Raymond and Mr. Wong Yick Kam, Michael are regarded to be interested, are managed by separate publicly listed companies with independent management and administration. In this respect, coupled with the diligence of its independent non-executive directors and the Audit Committee, the Group is capable of carrying on its business independently of, and at arm’s length from the said competing businesses.

# DIRECTORS' REPORT

## CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had the following connected transactions, details of which are set out below:

### I) Connected Transactions

- (1) In November 2003, the Company, through a wholly-owned subsidiary, Kosheen Investments Limited, formed a joint venture company, namely Winwill Investment Pte Ltd ("Winwill"), together with a wholly-owned subsidiary of Wing Tai Holdings Limited ("WTH") and a wholly-owned subsidiary of Winsor Properties Holdings Limited ("WPHL") on a 20:60:20 basis.

Winwill is an investment vehicle. It holds a 60% interest in another joint venture company, namely Winhome Investment Pte Ltd ("Winhome"). Other shareholders of Winhome are independent third parties to each of the Directors, Chief Executive and substantial shareholders of the Company or any of its subsidiaries or their respective associates.

Winhome undertakes the development and sale of a residential land parcel at Flower Road/Kovan Road in Singapore. Financial assistance in the form of shareholders' loan provided to Winhome in proportion to the Group's equity interest in Winhome and on normal commercial terms amounted to HK\$62.5 million in 2006.

WTH is a substantial shareholder of the Company and a connected person of the Company for the purpose of the Listing Rules. WPHL is a substantial shareholder of three subsidiaries of the Company and hence a connected person of the Company.

- (2) On 1 November 2004, Unimix Properties Limited, a 86.4%-owned subsidiary of the Company, entered into a 2 year tenancy agreement with Wing Tai Corporation Limited ("WTC") for the leasing of the premises situated at Unit B, 18/F and Unit A, 22/F, Unimix Industrial Centre, 2 Ng Fong Street, San Po Kong, Kowloon, Hong Kong at a total rent and management fee of HK\$2,646,000 (exclusive of electricity charges for the air-conditioning system). The monthly rental is payable in advance on the first date of each month. This tenancy agreement expired on 31 October 2006. A new tenancy agreement with WTC has been entered into during the year on the same terms for one year commencing 1 November 2006. This connected transaction is exempted from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.
- (3) On 3 December 2004, USI Property Management Limited ("USIPM"), a wholly-owned subsidiary of the Company, entered into a project management agreement ("PM Agreement") with Begin Land Limited ("Begin Land"), a wholly-owned subsidiary of WPHL. Pursuant to the PM Agreement, Begin Land appointed USIPM as the project manager to manage the construction and development of the property situated at 102 How Ming Street, Kwun Tong, Kowloon for a term of approximately 70 months commencing on 1 December 2004 until the date of settlement of the final account in respect of the property project which is expected to be a date not later than 30 September 2010.

The project management fee paid by Begin Land to USIPM in 2006 amounted to HK\$1.8 million.

- (4) On 14 March 2005, the Company and WPHL entered into a memorandum of agreement pursuant to which the Company and WPHL formed a 80:20 joint venture for the investment and development of the property situated at No.157 Argyle street, Kowloon (the "Property"). The joint venture, Pangold Development Limited ("Pangold"), acquired the Property by way of public tender at the tender purchase price of HK\$250.1 million and will spend an aggregate of HK\$664 million to pay for the land premium and develop the Property. This connected transaction was approved by the independent shareholders (voting by poll) at a special general meeting held on 21 April 2005.

A shareholders agreement had been entered into on 14 July 2005 by the Company and WPHL which sets out the terms governing the management of Pangold and the obligations of the parties to the agreement.

At 31 December 2006, the Group advanced HK\$210 million to Pangold. The loan is proportionate to the Group's shareholding in Pangold and interest bearing at prevailing market rates.

- (5) On 30 September 2005, the Company and WPHL entered into a memorandum of agreement pursuant to which the Company and WPHL formed a 70:30 joint venture for the refurbishment of the property situated at Nos. 314-324 Hennessy Road, Hong Kong (the “Building”). The Building was acquired by the joint venture, Winnion Limited (“Winnion”), by way of public tender at the tender purchase price of HK\$529 million. The refurbishment cost of the Building is currently estimated to be approximately HK\$150 million. This connected transaction was approved by the independent shareholders (voting by poll) at a special general meeting held on 9 November 2005.

A shareholders agreement had been entered into on 28 November 2005 by the Company and WPHL which sets out the terms governing the management of Winnion and obligations of the parties to the agreement.

At 31 December 2006, the Group advanced HK\$137 million to Winnion. The loan is proportionate to the Group’s shareholding in Winnion and interest bearing at prevailing market rates.

## II) Continuing Connected Transactions

- (1) On 22 June 2005, the Group formed a joint venture with Morgan Stanley Real Estate Fund IV International Funds (“MSREF IV International”), a substantial shareholder of a subsidiary of the Company and therefore a connected person of the Company under the Listing Rules, in respect of the Lanson Place Jin Lin Tian Di serviced apartment project (the “Project”). In connection with the Project:

Lanson Place Hospitality Management Limited (formerly known as Lanson Place Management Limited and hereinafter referred to “Lanson Place”), a wholly-owned subsidiary of the Company, entered into an Operating Agreement with Shanghai Jinlin Tiandi Serviced Apartment Management Co. Ltd (“WFOE”) pursuant to which Lanson Place is to manage the assets of the Project on behalf of WFOE. The Operating Agreement is for a term of three years commencing from 22 June 2005.

The total management fee of HK\$1,523,000 (2005: HK\$3,522,000) received by Lanson Place for the year ended 31 December 2006 is within the annual cap as set out in the Company’s announcement dated 23 June 2005.

- (2) On 31 October 2006, the Company’s indirect wholly-owned subsidiary, Gieves Limited (“Gieves”), entered into an agreement with Wensum Tailoring Company Limited (“Wensum”) (the “Agreement”). Pursuant to the Agreement, Gieves may place orders with Wensum for supply of certain finished tailored menswear or their components during the period from 31 October 2006 to 31 December 2008.

Wensum Clothing Company plc (an independent third party to the Group) was a supplier of Gieves. In May 2006, Wensum acquired the business and certain trading assets and liabilities of Wensum Clothing Company plc. Wensum is an indirect wholly-owned subsidiary of Wing Tai Corporation Limited. As Wing Tai Corporation Limited is a substantial shareholder and hence a connected person of the Company, Wensum is a connected person of the Group for the purpose of the Listing Rules.

Purchases made by Gieves from Wensum during the period from May 2006 to 31 December 2006 amounted to GBP556,000 (equivalent to approximately HK\$7,934,000), which is within the annual cap as set out in the Company’s announcement dated 3 November 2006.

## DIRECTORS' REPORT

The independent non-executive directors of the Company have reviewed and confirmed that the above continuing connected transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms;
- (c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) have not exceeded the relevant maximum amount capped in accordance to the annual caps as set out in the relevant public announcements.

In accordance with paragraph 14A.38 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditor of the Company and perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings for the selected samples based on the agreed procedures to the Board of Directors stating that:

- (a) the selected samples of the transactions had been approved by the Company's Directors;
- (b) the selected samples of the transactions in respect of provision of goods or services by the Group, were entered into in accordance with the pricing policies of the Group;
- (c) the selected samples of the transactions were entered into in accordance with the relevant agreements governing such transactions; and
- (d) such transactions, when applicable, had not exceeded the annual caps as disclosed in relevant announcements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of turnover attributable to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The aggregate amount of purchase attributable to the Group's five largest suppliers was less than 30% of the total value of the Group's purchases.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers.

## DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 31 December 2006, the aggregate amount of financial assistance to and guarantees given for facilities granted to affiliated companies by the Group amounted to HK\$180.2 million in aggregate which did not exceed 8% of the assets ratio as defined in Rule 14.07(1) of the Listing Rules.

A pro-forma combined balance sheet of these affiliated companies and the Group's attributable interest in these affiliated companies as at 31 December 2006 are presented below:

	Pro-forma combined balance sheet HK\$'M	Group's attributable interest HK\$'M
Non-current assets	2,903.3	446.4
Current assets	2,858.9	1,081.2
Current liabilities	(1,149.2)	(361.8)
Non-current liabilities	(2,380.5)	(401.0)
Net assets	<u>2,232.5</u>	<u>764.8</u>

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no restriction against such rights under the laws in Bermuda.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 118 of this annual report.

## AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board  
**Cheng Wai Chee, Christopher**  
*Chairman*

Hong Kong, 17 April 2007