

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Company’s subsidiaries are engaged in the retailing, export and production of casual wear. The principal activities of the Group have not significantly changed during the year.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 134.

An interim dividend of HK3.20 cents per ordinary share was paid on 17 October 2006. The directors recommended the payment of a final dividend of HK12.24 cents and a special dividend of HK10.00 cents per ordinary share in respect of the year, to shareholders on the register of members on 22 June 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years/period, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on pages 135 and 136 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the year, together with the reasons thereof, are set out in notes 32 and 33 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution, as computed in accordance with The Companies Act 1981 of Bermuda (as amended), amounted to HK\$650,826,000, of which HK\$129,115,000 and HK\$105,486,000 have been proposed as final dividend and special dividend respectively for the year. In addition, the Company's share premium account, in the amount of HK\$373,938,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$234,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

DIRECTORS

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

Executive

Dr. Charles Yeung, SBS, JP	<i>(Chairman)</i>
Mr. Yeung Chun Fan	<i>(Vice-chairman)</i>
Mr. Yeung Chun Ho	
Mr. Pau Sze Kee, Jackson	
Mr. Hui Chung Shing, Herman, JP	
Ms. Cheung Wai Yee	
Mr. Chan Wing Kan, Archie	
Mr. Teo Heng Kee, Peter	

Independent non-executive

Mr. Wong Man Kong, Peter, BBS, JP
Mr. Lau Hon Chuen, Ambrose, GBS, JP
Mr. Chung Shui Ming, Timpson, GBS, JP

Non-executive

Dr. Lam Lee G.

REPORT OF THE DIRECTORS

DIRECTORS (CONTINUED)

In accordance with bye-law 110(A) of the Company's Bye-laws, Ms. Cheung Wai Yee, Mr. Lau Hon Chuen, Ambrose, GBS, JP, Mr. Chung Shui Ming, Timpson, GBS, JP and Dr. Lam Lee G. will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

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 the section headed "Connected transactions and Continuing Connected Transactions" below and in note 40 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 subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2006, the interests or short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of director	Capacity	No. of shares held		Total	Percentage of issued share capital (%)
		Long position	Short position		
Dr. Charles Yeung, SBS, JP	Interest of controlled corporations	627,668,000	6,600,000	634,268,000 ⁽¹⁾	60.128
Mr. Yeung Chun Fan	(i) Interest of controlled corporations	627,668,000	6,600,000	640,998,000 ^{(1) & (3)}	60.766
	(ii) Interest of spouse	6,730,000	–		
Mr. Yeung Chun Ho	Interest of a controlled corporation	32,430,000	–	32,430,000 ⁽²⁾	3.074
Mr. Pau Sze Kee, Jackson	Beneficial owner	9,370,000	–	9,370,000	0.888
Mr. Hui Chung Shing, Herman, JP	Beneficial owner	6,250,000	–	6,250,000	0.592
Ms. Cheung Wai Yee	(i) Beneficial owner	6,730,000	–	640,998,000 ^{(1) & (3)}	60.766
	(ii) Interest of spouse	627,668,000	6,600,000		
Mr. Lau Hon Chuen, Ambrose, GBS, JP	Beneficial owner	956,000	–	956,000	0.091

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

Notes:

- (1) 398,988,000 shares (of which interests in 6,600,000 shares are short position) were held by Glorious Sun Holdings (BVI) Limited (the entire issued voting share capital of which was held as to 51.934% by Dr. Charles Yeung, SBS, JP and as to 48.066% by Mr. Yeung Chun Fan), 233,540,000 shares were held by Advancetex Holdings (BVI) Limited (the entire issued voting share capital of which was held as to 51.934% by Dr. Charles Yeung, SBS, JP and as to 48.066% by Mr. Yeung Chun Fan) and 1,740,000 shares were held by G. S. Strategic Investment Limited (the entire issued voting share capital of which was held as to 50% by each of Dr. Charles Yeung, SBS, JP and Mr. Yeung Chun Fan).
- (2) 32,430,000 shares were held by Unicom Consultants Limited, a company wholly owned by Mr. Yeung Chun Ho.
- (3) Ms. Cheung Wai Yee is the spouse of Mr. Yeung Chun Fan. 6,730,000 shares related to the same block of shares held by Ms. Cheung Wai Yee and 634,268,000 shares related to the same block of shares held by three companies controlled by Mr. Yeung Chun Fan.

Save as disclosed above, as at 31 December 2006, none of the directors of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Divisions 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option schemes disclosure in note 33 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEMES

Concerning the share options granted to the directors, substantial shareholders and employees, as detailed in note 33 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive Directors

Dr. YEUNG Chun Kam, SBS, JP, alias Charles YEUNG, aged 60, is the founder and Chairman of the Group. He is responsible for the Group's business strategies. Dr. Yeung has over 35 years of experience in the garment industry. He was an awardee of the "Young Industrialist Award of Hong Kong" in 1991 and was conferred an honorary doctorate degree by the China Textile University in 1993 and an honorary fellow by The Professional Validation Council of Hong Kong Industries in 2002. Dr. Yeung is a Member of the National Committee of the Chinese People's Political Consultative Conference, the Vice-president of China Association of Enterprises with Foreign Investment and a Vice-chairman of The Chinese General Chamber of Commerce. Dr. Yeung is also an advisory professor of the East China University and the Tianjin Polytechnic University and a visiting professor of the Xi'an Polytechnic University in the Mainland China. Dr. Yeung is a director and shareholder of Glorious Sun Holdings (BVI) Limited and Advancetex Holdings (BVI) Limited which are the substantial shareholders of the Company (as disclosed in the section headed "Substantial Shareholders" in this Report).

Mr. YEUNG Chun Fan, aged 54, is the Vice-chairman and General Manager of the Group which he joined in 1975. He has over 30 years of experience in the garment industry. Mr. Yeung is an Honorary Fellow Member of the Hong Kong Institution of Textile and Apparel, the President of The Federation of Hong Kong Garment Manufacturers, an advisory professor of the Nanjiang University, the East China University and the Qingdao University, a part-time professor of the Northeastern University and Business School of Jilin University. Mr. Yeung is a Member of the Standing Committee of the Hebei Committee of The Political Consultative Conference and a Vice-president of the China National Garment Association. Mr. Yeung is responsible for the Group's overall business operations. He is a brother of Dr. Charles Yeung, SBS, JP and Mr. Yeung Chun Ho. Mr. Yeung is a director and shareholder of Glorious Sun Holdings (BVI) Limited and Advancetex Holdings (BVI) Limited which are the substantial shareholders of the Company (as disclosed in the section headed "Substantial Shareholders" in this Report).

Mr. YEUNG Chun Ho, aged 62, joined the Group in 1979 and is a Deputy General Manager of the Group. Mr. Yeung has over 30 years of experience in the garment industry. He is responsible for the Group's weaving and dyeing operations as well as the woven apparel manufacturing operations. Mr. Yeung is a brother of Dr. Charles Yeung, SBS, JP and Mr. Yeung Chun Fan.

Mr. PAU Sze Kee, Jackson, aged 55, joined the Group in 1987 and is a Deputy General Manager of the Group. Mr. Pau graduated from the University of Hong Kong with a bachelor's degree in Social Sciences. Before joining the Group, he had worked in several financial institutions and a listed trading company in the United Kingdom for more than 10 years. He is responsible for the Group's retail operations in Australia and the administrative and financial matters of the Group's production operations in the Bangladesh.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Executive Directors (continued)

Mr. HUI Chung Shing, Herman, JP, aged 56, is responsible for the strategic planning and legal matters of the Group. Mr. Hui graduated from the University of Hong Kong with a bachelor's degree in Laws. He is a solicitor of the High Court of the Hong Kong Special Administrative Region and has also been admitted as a solicitor of the Supreme Court of England and Wales and as a solicitor and barrister of the Supreme Court of Victoria, Australia. Before joining the Group in 1995, Mr. Hui was the Group's external legal advisor.

Ms. CHEUNG Wai Yee, aged 55, joined the Group in 1975 and is responsible for the Group's woven apparel manufacturing and export sales operations as well as assisting in the development of retail business in the Mainland China. Ms. Cheung is the wife of Mr. Yeung Chun Fan.

Mr. CHAN Wing Kan, Archie, aged 60, has been the Group's business consultant in the past. Mr. Chan graduated from the University of New South Wales, Australia with a bachelor's degree in Commerce. He is a Member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. Mr. Chan has extensive experience in corporate investment and management. He is responsible for the business development of the Group.

Mr. TEO Heng Kee, Peter, aged 41, joined the Group in 2005 and is responsible for the business development of the Group. Mr. Teo is a graduate of the Indiana University (Bloomington) USA, with a bachelor's of science degree. Before joining the Group, Mr. Teo held various senior retailing positions in the USA, Singapore and Hong Kong.

Independent Non-Executive Directors

Mr. WONG Man Kong, Peter, BBS, JP, aged 58, has been an Independent Non-executive Director of the Company since August 1996. Mr. Wong is a graduate of the University of California at Berkeley in USA with a bachelor of science degree in Mechanical Engineering (Naval Architecture) and was an awardee of the "Young Industrialist Award of Hong Kong" in 1988. Mr. Wong is the Chairman of M.K. Corporation Ltd., a Director of Hong Kong Ferry (Holdings) Co. Ltd., China Travel International Investment Hong Kong Limited, Sun Hung Kai & Co. Limited, Chinney Investments, Limited, Sino Hotels (Holdings) Limited and the Chairman of North West Development Ltd. He is a Deputy of the 10th National People's Congress of the PRC, an Executive Vice Chairman of Hong Kong Pei Hua Education Association, a Vice Chairman of Chamber of Tourism, All-China Federation of Industry & Commerce and a Director of Ji Nan University. He holds title of Honorary Professor in Lanzhou University and The Central University for Nationalities.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Independent Non-Executive Directors (continued)

Mr. LAU Hon Chuen, GBS, JP, alias Ambrose LAU, aged 59, has been an Independent Non-executive Director of the Company since March 1997. Mr. Lau obtained a bachelor's degree in Laws from the University of London. He is a solicitor and a China-Appointed Attesting Officer. He is also a Standing Committee Member of the National Committee of the Chinese People's Political Consultative Conference, a Member of the Commission on Strategic Development, Hong Kong SAR and a Director of the Hong Kong Mortgage Corporation Limited.

Mr. CHUNG Shui Ming, Timpson, GBS, JP, aged 55, has been an Independent Non-executive Director of the Company since September 2004. Mr. Chung holds a Master of Business Administration Degree and is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Currently he is an Executive Director of Hantec Investment Holdings Limited and an Independent Non-executive Director of Tai Shing International (Holdings) Limited, China Netcom Group Corporation (Hong Kong) Limited, Miramar Hotel and Investment Company, Limited and Nine Dragons Paper (Holdings) Limited. He is also a Member of National Committee of the 10th Chinese People's Political Consultative Conference and the Chairman of the Council of the City University of Hong Kong.

Non-Executive Director

Dr. LAM Lee G., aged 47, has been a Non-executive Director of the Company since September 2004. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 25 years of multinational general management, corporate governance, investment banking, and direct investment experience. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on the board of a number of publicly-listed companies in the Asia Pacific region. He is a Member of the Hong Kong Institute of Bankers, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and the China Institute of Directors, and a Member of the General Council of the Chamber of Hong Kong Listed Companies.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

Senior Management

Mr. CHOW Hing Ping, aged 58, joined the Group in 1979 and is a Deputy General Manager of the Group. Mr. Chow is responsible for the administration and financial matters of the production and retail operations of the Group in Hong Kong and the Mainland China.

Mr. FUNG Hing Keng, aged 57, joined the Group in 1978 and is a Deputy General Manager of the Group. Mr. Fung has over 35 years of experience in the garment industry. He is responsible for the woven apparel manufacturing operations in the Mainland China and assists in the development of the retail operations in the same area.

Mr. LEE Fung Tai, aged 59, joined the Group in 1983 and is the head of the knitwear division responsible for production. Mr. Lee has over 35 years of experience in the garment industry. He is a substantial shareholder of the companies under the knitwear division.

Mr. LI Fung Lok, aged 57, joined the Group in 1983 and is the head of the knitwear division responsible for administration and export sales. Mr. Li has over 35 years of experience in the garment industry. Mr. Li is a substantial shareholder of the companies under the knitwear division.

Ms. CHEUNG Man Yee, Carmen, aged 56, joined the Group in 1982 and is responsible for the Group's product development and marketing operations. Ms. Cheung graduated from the University of Hawaii in USA with a bachelor's degree in Arts. Prior to joining the Group, she was the manager of the sales and purchase department in one of the largest department stores in USA. Ms. Cheung is the sister of Ms. Cheung Wai Yee.

Mr. LAI Man Sum, alias Sam LAI, aged 45, joined the Group in 1991 and is the Chief Accountant of the Group. Mr. Lai graduated from the University of Hong Kong with a bachelor's degree in Social Sciences. He is a fellow of the Association of Chartered Certified Accountants in the United Kingdom and a Member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Mr. Lai worked for an international accounting firm and a garment company for many years.

Mr. MUI Sau Keung, alias Isaac MUI, aged 44, joined the Group in 1993. He was appointed as the Company Secretary with effect from December 2005. Mr. Mui graduated from the University of Hong Kong with a bachelor's degree in Social Sciences. He is a member of the Hong Kong Institute of Certified Public Accountants. Before joining the Group, Mr. Mui worked in various companies in Hong Kong responsible for finance, personnel and administrative jobs.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register kept by the Company under Section 336 of the SFO showed that the following shareholders (other than directors of the Company) had disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO an interest or a short position in the shares or underlying shares of the Company:

Name of shareholder	Capacity	Number of shares held		Total	Percentage of issued share capital (%)
		Long position	Short position		
Glorious Sun Holdings (BVI) Limited	Beneficial owner	392,388,000	6,600,000	398,988,000	37.824
Advancetex Holdings (BVI) Limited	Beneficial owner	233,540,000	–	233,540,000	22.139
Cheah Cheng Hye	(i) Beneficial owner (ii) Interest of child under 18 or spouse (iii) Interest of a controlled corporation	500,000 240,000 62,495,000 ⁽¹⁾	– – –	63,235,000	5.995
Value Partners Limited	Investment manager	62,857,000	–	62,857,000	5.959
Commonwealth Bank of Australia	Interest of controlled corporations	73,875,100	–	73,875,100 ⁽²⁾	7.003

Notes:

- (1) Mr. Cheah Cheng Hye was deemed to be interested in these shares held by Value Partners Limited, a company controlled by Mr. Cheah Cheng Hye.
- (2) 73,875,100 shares were held by various wholly-owned subsidiaries of Commonwealth Bank of Australia.

Save as disclosed above, no other parties (other than directors of the Company) disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2006.

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CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions and continuing connected transactions. The Company has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

Connected Transactions

On 7 April 2006, Jeanswest International (L) Limited, a wholly owned subsidiary of the Company, entered into an acquisition agreement with the Company's directors, Dr. Charles Yeung, SBS, JP and Mr. Yeung Chun Fan, for the acquisition of the entire issued share capital of Goldpromise Limited and related shareholders' loan approximately HK\$36,569,000, for a total consideration of US\$10,180,000 (approximately HK\$78,832,000). Completion of the acquisition agreement took place on 27 May 2006.

In the opinion of the Company's Independent Non-executive Directors, the above connected transactions were entered into the ordinary and usual course of business and based on normal commercial terms agreed after arm's length negotiation between the parties and pursuant to the terms of the relevant agreement.

Continuing Connected Transactions

	Notes	2006 HK\$'000	2005 HK\$'000
Rental expenses paid to:	(i)		
Golden Sunshine Enterprises Limited		3,641	3,839
Houtex Investments Limited		1,272	1,216
G. S. (Yeungs) Limited		831	759
Gantin Limited		288	281
Harbour Guide Limited		2,138	2,204
Gloryear Management Limited		234	678
		8,404	8,977
Management fees paid to:	(iii)		
Golden Sunshine Enterprises Limited		913	975
G. S. Property Management Limited		276	276
		1,189	1,251
Sales of garment to:	(ii)		
Jeanswest Corporation (New Zealand) Limited		2,729	6,069
Service fee income received from:	(iii)		
Jeanswest Corporation (New Zealand) Limited		3,299	7,988

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Continuing Connected Transactions (continued)

Notes:

- (i) The rental expenses were charged with reference to the prevailing open market rentals.
- (ii) The sales of garment were made according to terms and conditions comparable to those offered to the major customers of the Group.
- (iii) Management service fees were charged according to the management services agreement signed between the parties having regard to the cost of services provided.

All of the above companies are controlled by Dr. Charles Yeung, SBS, JP and Mr. Yeung Chun Fan, both of whom are directors of the Company.

The Independent Non-executive Directors of the Company have reviewed and confirmed that all the above transactions with the related companies are in the ordinary and usual course of the Group's business, and that in their opinion, they are on terms that are fair and reasonable so far as the shareholders of the Company are concerned, and in accordance with the terms of the agreements governing the transactions.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

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

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

EMOLUMENT POLICY

The remuneration committee reviews the emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistics.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has applied the principles of the Code Provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Details are set out in the Corporate Governance Report on page 23 to 29.

AUDITORS

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

ON BEHALF OF THE BOARD

Dr. Charles Yeung, SBS, JP
Chairman

Hong Kong
11 April 2007



JEANSWEST
真维斯