

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, 2004.

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, 2004 is set out in note 4 to the financial statements.

FINANCIAL RESULTS

The Group's profit for the year ended 31st July, 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 21 to 55.

DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended 31st July, 2004 (2003: Nil). No interim dividend was declared by the Company for the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five-year financial summary have been adjusted for the effects of the retrospective change in accounting policy affecting income taxes, as detailed in note 2 to the financial statements.

	Year ended 31st July,				
	2004	2003	2002	2001	2000
	HK\$'000	(Restated) HK\$'000	(Restated) HK\$'000	(Restated) HK\$'000	(Restated) HK\$'000
Turnover	<u>459,562</u>	<u>484,063</u>	<u>595,320</u>	<u>679,939</u>	<u>727,522</u>
Net profit/(loss) attributable to shareholders	<u>47,896</u>	<u>(58,768)</u>	<u>19,473</u>	<u>4,629</u>	<u>(35,728)</u>
	As at 31st July,				
	2004	2003	2002	2001	2000
	HK\$'000	(Restated) HK\$'000	(Restated) HK\$'000	(Restated) HK\$'000	(Restated) HK\$'000
Total assets	<u>476,218</u>	<u>416,510</u>	<u>517,646</u>	<u>614,139</u>	<u>660,356</u>
Total liabilities	<u>162,106</u>	<u>150,849</u>	<u>193,217</u>	<u>203,961</u>	<u>212,891</u>
Shareholders' funds	<u>314,112</u>	<u>265,661</u>	<u>324,429</u>	<u>410,178</u>	<u>447,465</u>
	<u>476,218</u>	<u>416,510</u>	<u>517,646</u>	<u>614,139</u>	<u>660,356</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

Lim Por Yen (*Chairman*)

Lam Kin Ming (*Deputy Chairman*)

Lam Kin Ngok, Peter

Lam Kin Ko, Stewart

(resigned on 1st April, 2004)

Lam Kin Hong, Matthew

Non-executive directors

U Po Chu

Shiu Kai Wah

Chiu Wai

Wan Yee Hwa, Edward*

Yeung Sui Sang*

Chow Bing Chiu*

(appointed on 30th September, 2004)

* *Independent non-executive directors*

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In accordance with Article 94 of the Company's Articles of Association, Mr. Chow Bing Chiu retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Article 100 of the Company's Articles of Association, Mr. Chiu Wai, Mr. Wan Yee Hwa, Edward and Mr. Yeung Sui Sang retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 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 upto 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. Lim Por Yen, Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter and Madam U Po Chu held interests and/or directorships in companies engaged in the business of property investment and development in Hong Kong and the Mainland, and garment manufacturing and related businesses.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

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.

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. Lim Por Yen, Chairman, aged 89, is the founder of the Lai Sun Group. He has been a director of the Company since November 1987. He is also the chairman and managing director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company), the chairman of Lai Fung Holdings Limited and the honorary chairman of Lai Sun Development Company Limited. Mr. Lim first became involved in the property and investment business in the mid-1950's and has over 60 years' experience in the garment business. He was admitted to the honorary university fellowships of University of Hong Kong in December 2003. Mr. Lim was one of the Hong Kong Affairs Advisers to the People's Republic of China and is a founder member of The Better Hong Kong Foundation.

Mr. Lam Kin Ming, Deputy Chairman, aged 67, was appointed a director in December 1993. He is a deputy chairman of Lai Sun Garment (International) Limited (the ultimate holding company of the Company) and has been involved in day-to-day management in the garment business since 1958. He is also a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited, and the deputy chairman of Lai Fung Holdings Limited. Mr. Lam is a son of Mr. Lim Por Yen and the elder brother of Mr. Lam Kin Ngok, Peter.

Mr. Lam Kin Ngok, Peter, aged 47, was appointed a director in October 1987. He is a deputy chairman of Lai Sun Garment (International) Limited (the ultimate holding company of the Company), the chairman and president of Lai Sun Development Company Limited, an executive director of eSun Holdings Limited and Lai Fung Holdings 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 a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

Mr. Lam Kin Hong, Matthew, aged 36, was appointed a director in July 1999. He is also an executive director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company), and a director and chief executive officer of Lai Fung Holdings 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 a son of Mr. Lim Por Yen and 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)

Non-executive directors:

Madam U Po Chu, aged 79, was appointed a director in September 1989. She is also an executive director of Lai Fung Holdings Limited, a non-executive director of Lai Sun Garment (International) Limited (the ultimate holding company of the Company), Lai Sun Development Company Limited and eSun Holdings Limited. Madam U has over 55 years' experience in the garment manufacturing business and was involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and, in the late 1980's also became involved in property development and investment. In 2000, Madam U began investing in the catering industry in Hong Kong. Madam U is Mr. Lim Por Yen's wife.

Mr. Shiu Kai Wah, aged 72, 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), a non-executive director of Lai Fung Holdings Limited, Lai Sun Development Company Limited and eSun Holdings Limited. Mr. Shiu has over 30 years' experience in management in the garment business.

Mr. Chiu Wai, 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), Lai Sun Development Company Limited and eSun Holdings Limited. Mr. Chiu has over 45 years' experience in production management.

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Mr. Wan Yee Hwa, Edward, aged 68, 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). 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 66, 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 53, was appointed an independent non-executive director in September 2004. 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 Lam Wai Shan, Vanessa, aged 33, 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 and granddaughter of Mr. Lim Por Yen.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior management: (continued)

Miss Chan Lai Ping, Connie, aged 38, is the Financial Controller 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 an international merchant bank.

DIRECTORS' INTERESTS

As at 31st July, 2004, 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

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

Note 1: Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 338,982,809 shares in the Company. Mr. Lim Por Yen was deemed to be interested in 338,982,809 shares in the Company by virtue of his holding (together with his spouses) of approximately 33.99% in the issued share capital of LSG.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate 42% of the issued share capital of LSG.

Note 2: Madam U Po Chu was deemed to be interested in 338,982,809 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

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DIRECTORS' INTERESTS (continued)

(2) Associated Corporation

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

	Long positions in the shares of LSG				Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity		
Lim Por Yen	484,991,750	3,669,000 (Note 1)	Nil	Beneficial owner	488,660,750	33.99%
Lam Kin Ming	4,451,790	Nil	Nil	Beneficial owner	4,451,790	0.31%
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Beneficial owner	110,794,951	7.71%
U Po Chu	3,669,000	484,991,750 (Note 2)	Nil	Beneficial owner	488,660,750	33.99%
Chiu Wai	199,600	Nil	Nil	Beneficial owner	199,600	0.01%

Note 1: Mr. Lim Por Yen was deemed to be interested in 3,669,000 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.

Note 2: Madam U Po Chu was deemed to be interested in 484,991,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, as at 31st July, 2004, 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, 2004, 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 (Note 1)	Number of shares	
Joy Mind Limited	Beneficial owner	Corporate	336,316,809 (Note 2)	54.50%
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	338,982,809 (Note 2)	54.93%
Lim Por Yen	Beneficial owner	Corporate	338,982,809 (Note 3)	54.93%
U Po Chu	Beneficial owner	Family	338,982,809 (Note 3)	54.93%
Lai Yuen Fong	Beneficial owner	Family	338,982,809 (Note 3)	54.93%

Note 1: Personal, family and corporate denote personal interest, family interest and corporate interest respectively.

Note 2: 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.

Note 3: Mr. Lim Por Yen and his spouses, Madam U Po Chu and Madam Lai Yuen Fong, were deemed to be interested in 338,982,809 shares by virtue of their interest of approximately 33.99% in 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 and debentures of the Company as at 31st July, 2004.

ACCOUNTING POLICIES

The principal accounting policies of the Group are set out in note 3 to the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in note 13 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 14 to the financial statements.

SUBSIDIARIES

Details of the Company's principal subsidiaries at the balance sheet date are set out in note 16 to the financial statements.

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BANK BORROWINGS

Details of the bank borrowings of the Group and the Company at the balance sheet date are set out in note 20 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 42% of the Group's total purchases for the year.

DISTRIBUTABLE RESERVES

As at 31st July, 2004, 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\$139,000.

CONTINUING CONNECTED TRANSACTIONS

Related party transactions, which fall within the definition stipulated in the Hong Kong Statement of Standard Accounting Practice No. 20 ("SSAP 20") on "Related Party Disclosures", undertaken by the Group during the year are set out in note 3 to the financial statements. The transactions included in note 28 to the financial statements also constitute connected transactions as defined under the Listing Rules.

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During the year, the Group entered into the following continuing connected transactions:

- (a) The Company entered into a tenancy agreement as the Tenant between Lai Sun Textiles Company Limited as the Landlord for the premises known as unit 1B, whole 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; and
- (b) The Company entered into a license agreement as the Licensee between 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 transactions would facilitate the operations of the Group as it needs space for storage of goods.

The shareholdings of Lai Sun Textiles Company Limited were held by 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.

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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.

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

During the financial year ended 31st July, 2004, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

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 of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report. The non-executive directors 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 Company's Articles of Association.

The Company has established an audit committee in accordance with the Code of Best Practice for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Wan Yee Hwa, Edward, Mr. Yeung Sui Sang and Mr. Chow Bing Chiu as at the date hereof.

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

Deputy Chairman

Hong Kong

12th November, 2004