
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lai Sun Garment (International) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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L A I S U N G A R M E N T

Lai Sun Garment (International) Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 191)

MAJOR TRANSACTION

DISPOSAL OF PROPERTY

A letter from the board of directors of the Company is set out on pages 3 to 9 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 31st March, 2005 at 10:00 a.m. is set out on pages 67 and 68 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Registrars, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at such meeting or at any adjourned meeting should you so wish.

7th March, 2005

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DEFINITIONS

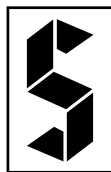
In this circular, unless the context otherwise requires, the following expressions have the following meanings:—

| | |
|------------------------|--|
| “Agreement” | the agreement constituted by the acceptance of the Tender by GNDL; |
| “associate” | has the meaning ascribed to it in the Listing Rules; |
| “Board” | the Board of Directors of the Company; |
| “CGL” | Crocodile Garments Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange; |
| “CGL Directors” | the directors of CGL; |
| “CGL Group” | CGL and its subsidiaries; |
| “the Company” or “LSG” | Lai Sun Garment (International) Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange; |
| “Completion” | completion of the Disposal pursuant to the Tender; |
| “Completion Date” | 31st May, 2005; |
| “Directors” | the directors of the Company; |
| “Disposal” | the disposal of the Property pursuant to the Tender; |
| “EGM” | the extraordinary general meeting of the Company to be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 31st March, 2005 at 10:00 a.m.; |
| “GNDL” | Gold Nation Development Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CGL; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China; |

DEFINITIONS

| | |
|---------------------------|---|
| “Latest Practicable Date” | 2nd March, 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “LFH” | Lai Fung Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange; |
| “LSD” | Lai Sun Development Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange; |
| “LSG Group” | the Company and its subsidiaries, including CGL; |
| “Property” | Units G-9, G-9A and G-10 on the Ground Floor, Utility Room 213A on the 2nd Floor and Utility Room 413A on the 4th Floor of Hankow Centre, Nos. 5-15 Hankow Road, Nos. 41-45, 47, 49-51 Peking Road, Nos. 4, 4A, 4B Ashley Road and Nos. 1, 1A-E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong; |
| “Purchaser” | Success Ever Limited, a company incorporated in Hong Kong; |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of Hong Kong Laws); |
| “Shares” | ordinary shares of HK\$0.50 each in the share capital of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Tender” | the tender for the Property made by the Purchaser; and |
| “Wisdoman” | Wisdoman Limited, a company incorporated in Hong Kong, and which is owned as to 50% by Madam U Po Chu (a non-executive director of both CGL and the Company, and the wife of Mr. Lim Por Yen (deceased), the founder and chairman of the Lai Sun group of companies) and as to 50% by Mr. Lam Kin Ngok, Peter (an executive director of both CGL and the Company, and the son of Mr. Lim Por Yen (deceased)). |

LETTER FROM THE BOARD



LAI SUN GARMENT

Lai Sun Garment (International) Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 191)

Executive Directors:

Lam Kin Ming (*Deputy Chairman*)
Lam Kin Ngok, Peter (*Deputy Chairman*)
Shiu Kai Wah
Lee Po On
Lam Kin Hong, Matthew

Registered Office:

11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Non-Executive Directors:

U Po Chu
Chiu Wai
Lai Yuen Fong
Lam Wai Kei, Vicky (*alternate director to Lai Yuen Fong*)
Wan Yee Hwa, Edward*
Leung Shu Yin, William*
Chow Bing Chiu*

* *Independent Non-Executive Directors*

7th March, 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION DISPOSAL OF PROPERTY

INTRODUCTION

On 31st January, 2005, the Directors and the CGL Directors jointly announced that GNDL, a direct wholly-owned subsidiary of CGL and an indirect non wholly-owned subsidiary of the Company, had accepted the tender by the Purchaser to purchase the Property for a cash consideration of HK\$145,000,000. The Tender was accepted by GNDL on 25th January, 2005.

LETTER FROM THE BOARD

The Disposal constitutes a major transaction (disposal) for the Company under the Listing Rules and is subject to the approval of the shareholders of the Company.

The Company's controlling shareholder is Wisdoman, which directly holds approximately 33.73% of the entire issued share capital of the Company. As its shareholding interest is less than 50%, an extraordinary general meeting of the Company will be convened to consider and, if thought fit, approve the Disposal.

The purpose of this circular is to provide you with further information in relation to the Disposal and to give you notice of the EGM at which your approval of the Disposal will be sought.

THE TENDER

1. Acceptance Date

The Tender was accepted by GNDL on 25th January, 2005.

2. Parties

Vendor: Gold Nation Development Limited

Purchaser: Success Ever Limited, which company and its beneficial owners are, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, third parties independent of the Company and its connected persons.

The principal activity of the Purchaser is, to the best of the knowledge, information and belief of the Directors, investment holding.

3. Nature of the Tender

The Tender provides for the sale by GNDL and the purchase by the Purchaser of the Property.

4. Asset to be disposed of

The asset to be disposed of by GNDL is the property comprising Units G-9, G-9A and G-10 on the Ground Floor, Utility Room 213A on the 2nd Floor and Utility Room 413A on the 4th Floor of Hankow Centre, Nos. 5-15 Hankow Road, Nos. 41-45, 47, 49-51 Peking Road, Nos. 4, 4A, 4B Ashley Road and Nos. 1, 1A-E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong. The gross floor area of the Property is approximately 2,738 square feet. The tenancy in respect of certain units on the ground floor of the

LETTER FROM THE BOARD

Property expired on 28th February, 2005 and a licence in respect of a utility room on the second floor will expire on the Completion Date. The Property will be sold with vacant possession on Completion.

5. Conditions of the Tender

Completion of the Disposal is conditional upon the obtaining by the Company and CGL, from their respective shareholders, of approval to the Disposal, on or before the Completion Date, in accordance with the Listing Rules. An EGM of the Company will be convened to consider and, if thought fit, approve the Disposal. For CGL, the written approvals of the Company and its wholly-owned subsidiary which together, hold more than 50% of the issued share capital of CGL, are sufficient for the purposes of Rule 14.44 of the Listing Rules in so far as it applies to CGL, and such approvals have already been given.

6. Consideration

The total cash consideration for the Disposal is HK\$145,000,000. The purchase price tendered by the Purchaser was the highest amongst the five tenders received by GNDL from the tenders (all being, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, third parties independent of the Company and its connected persons) in response to an invitation made by GNDL for the tender of the Property, which closed on 25th January, 2005.

An initial deposit of HK\$5,000,000 had been paid, in cash, by the Purchaser to GNDL's solicitors, to be held by GNDL's solicitors as stakeholders in accordance with the Tender at the time when the Purchaser submitted its tender on 24th January, 2005. A further deposit of HK\$9,500,000 was paid on 18th February, 2005. Further deposits of HK\$7,250,000 and HK\$7,250,000 are payable in cash on or before 18th March, 2005 and 29th April, 2005, respectively, in each case to be held by GNDL's solicitors as stakeholders in accordance with the Tender. The balance of the cash consideration, in the sum of HK\$116,000,000, shall be paid by the Purchaser upon Completion.

The initial and further deposits shall be forfeited to GNDL if the Purchaser fails to complete, but such deposits shall be refunded to the Purchaser, without costs, interest or compensation, if GNDL fails to complete, or the remaining condition set out above is not fulfilled on or before the Completion Date.

The initial and further deposits will be released by GNDL's solicitors to GNDL where the balance of the purchase price is greater than or equal to the amount required for the release and discharge of the Property from the existing charge affecting the Property on the Completion Date.

LETTER FROM THE BOARD

7. Completion

Completion is set to take place on 31st May, 2005.

Should the Purchaser fail to pay the further deposits or balance of purchase price or to observe or comply with any terms and conditions of the Agreement, GNDL may forthwith determine the Agreement by notice in writing and forfeit any deposit paid.

In the event of GNDL failing to complete the sale of the Property in accordance with the Agreement, it shall not be necessary for the Purchaser to tender an assignment to GNDL for execution before taking proceedings to enforce specific performance of the Agreement.

8. Financial matters relevant to the Disposal

The audited turnover and net loss (in the latter case, both before and after taxation and extraordinary items) of the CGL Group attributable to the Property for the financial year ended 31st July, 2003, as incorporated in CGL's audited consolidated accounts for that year, were approximately HK\$5.0 million and HK\$7.1 million, respectively, which included profit generated from leasing of the Property of HK\$4.9 million and, in the case of the net loss figure, a deficit on the revaluation of the Property, charged to consolidated profit and loss account, in the amount of HK\$12 million. Taking into account the Company's 54.93% interest in CGL, the audited turnover and net loss (in the latter case, both before and after taxation and extraordinary items) of the LSG Group attributable to the Property for the financial year ended 31st July, 2003, as incorporated in the Company's audited consolidated accounts for such year, were approximately HK\$5.0 million and HK\$3.9 million, respectively.

The audited turnover and net profit (in the latter case, both before and after taxation and extraordinary items) of the CGL Group attributable to the Property for the financial year ended 31st July, 2004, as incorporated in CGL's audited consolidated accounts for that year, were approximately HK\$4.7 million and HK\$15.6 million, respectively, which included profit generated from leasing of the Property of HK\$4.6 million and, in the case of the net profit figure, a reversal of deficit on revaluation of the Property, credited to consolidated profit and loss account, in the amount of HK\$11 million. Taking into account the Company's 54.93% interest in CGL, the audited turnover and net profit (in the latter case, both before and after taxation and extraordinary items) of the LSG Group attributable to the Property for the financial year ended 31st July, 2004, as incorporated in the Company's audited consolidated accounts for such year, were approximately HK\$4.7 million and HK\$8.6 million, respectively.

The carrying value of the Property as incorporated in the respective audited consolidated balance sheets as at 31st July, 2004 of both the Company and CGL was HK\$66 million.

LETTER FROM THE BOARD

Taking into account the consideration of HK\$145 million, the gain on disposal of the Property before expenses to accrue to CGL's consolidated accounts is estimated to be HK\$79 million. Taking into account the Company's 54.93% interest in CGL, the net gain on disposal of the Property before expenses, after the 45.07% minority interest, to accrue to the Company's consolidated accounts is estimated to be approximately HK\$43.4 million and the Company's consolidated net assets will be increased by approximately HK\$43.4 million. After the Disposal, the LSG Group will cease to have the rental income generated from the leasing of the Property.

9. Reasons for Disposal

The Property was acquired by GNDL in 1994, which has since held the Property as an investment property for rental purposes.

The Directors believe that the terms and conditions of, including the consideration for, the Disposal are fair and reasonable in the current market conditions and in the best interests of the Company and the shareholders of the Company as a whole. The fairness of the Disposal is supported by reference to the valuation of the Property by Savills (Hong Kong) Limited (formerly known as FPD Savills (Hong Kong) Limited), an independent professional valuer, as commissioned by LSG and CGL, which valued it at HK\$120,000,000 as at 29th December, 2004.

The Directors also consider that the Disposal represents an excellent opportunity for CGL to reduce its indebtedness.

10. Use of proceeds

The Property and its rental proceeds are charged and assigned to a bank (the "Lender") under an all-monies mortgage and an assignment of rentals respectively, to secure a banking facility of HK\$35,000,000 and all other sums from time to time due or owing to the Lender in respect of any other banking facilities provided by the Lender.

The net proceeds of the Disposal will be used for full repayment of the outstanding amounts due or owing to the Lender, which stood at approximately HK\$3.2 million as at 31st January, 2005. The balance of the net proceeds is intended to be used by CGL for general working capital purposes. In this context, CGL is exploring the feasibility of a number of plans to enhance the value of the Crocodile Building at No. 79 Hoi Yuen Road, Kwun Tong. However, no definitive plan has been adopted to date.

11. Major transaction

The Disposal constitutes a major transaction for the Company under the Listing Rules and is therefore subject to the approval of the shareholders of the Company.

LETTER FROM THE BOARD

The Company's controlling shareholder is Wisdoman, which directly holds approximately 33.73% of the entire issued share capital of the Company. As its shareholding interest is less than 50%, an extraordinary general meeting of the Company will be convened to consider and, if thought fit, approve the Disposal.

12. Background information on the Company

The Company is the holding company of the LSG Group which is principally engaged in investment holding, the manufacture and sale of garments and in property investment. The Company is the holding company of CGL, holding approximately 54.93% of the issued share capital of CGL. In addition, the Company has an interest of approximately 45.13% in LFH, a company listed on the Stock Exchange with property interests principally in the mainland of China, and being equity accounted for as an associate in the LSG Group's consolidated financial statements; and has an interest of approximately 12.42% in LSD, a company listed on the Stock Exchange with property and media-related interests and being accounted for as a long-term investment in the LSG Group's consolidated financial statements.

EXTRAORDINARY GENERAL MEETING

A notice of the EGM to be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 31st March, 2005 at 10:00 a.m. is set out on pages 67 and 68 of this circular. An ordinary resolution will be proposed at the EGM to approve the Disposal. To the best of the knowledge, information and belief of the Directors of the Company, none of the shareholders of the Company or their associates has any interest in the Disposal which is different from that of any other shareholders of the Company. Accordingly, none of the shareholders of the Company is required to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM should you so wish.

LETTER FROM THE BOARD

Under the Articles of Association of the Company, at any general meeting of shareholders of the Company, a resolution shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) any shareholder or shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or
- (iv) a shareholder or shareholders present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

In the opinion of the Directors, the Disposal is fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole. The Directors recommend, therefore, that shareholders should vote in favour of the ordinary resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the Appendices I, II and III of this circular.

Yours faithfully,
For and on behalf of the Board of
Lai Sun Garment (International) Limited
Lam Kin Ming
Deputy Chairman

AUDITED FINANCIAL INFORMATION

The following is the full text of the audited consolidated financial statements of the LSG Group for each of the two years ended 31st July, 2004 and 31st July, 2003 as extracted from the 2003-2004 annual report of LSG as appropriate. All definitions, page numbers and note references referred to therein are those of such relevant annual report.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st July, 2004

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> (Restated) |
|---|--------------|--------------------------------|--|
| TURNOVER | 6 | 858,755 | 1,295,241 |
| Cost of sales | | <u>(511,457)</u> | <u>(952,376)</u> |
| Gross profit | | 347,298 | 342,865 |
| Other revenue and gains | | 43,469 | 10,415 |
| Administrative expenses | | (105,886) | (114,279) |
| Selling and distribution costs | | (149,408) | (182,998) |
| Other operating expenses | | <u>(27,397)</u> | <u>(47,282)</u> |
| PROFIT FROM OPERATING ACTIVITIES | 7 | 108,076 | 8,721 |
| Finance costs | 8 | (12,336) | (13,099) |
| Share of profits and losses of associates | | 62,968 | (68,531) |
| Negative goodwill recognised | | <u>24,865</u> | <u>11,329</u> |
| PROFIT/(LOSS) BEFORE TAX | | 183,573 | (61,580) |
| Tax | 10 | <u>(38,417)</u> | <u>(50,017)</u> |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | | 145,156 | (111,597) |
| Minority interests | | <u>(21,586)</u> | <u>26,487</u> |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 11 | <u>123,570</u> | <u>(85,110)</u> |
| EARNINGS/(LOSS) PER SHARE | 12 | | |
| Basic | | <u>HK\$0.09</u> | <u>HK\$(0.06)</u> |
| Diluted | | <u>HK\$0.09</u> | <u>N/A</u> |

CONSOLIDATED BALANCE SHEET

31st July, 2004

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> (Restated) |
|--|--------------|--------------------------------|--|
| NON-CURRENT ASSETS | | | |
| Fixed assets | <i>13</i> | 21,241 | 31,465 |
| Investment properties | <i>14</i> | 265,680 | 246,900 |
| Properties under development | <i>15</i> | 178,150 | 176,397 |
| Goodwill | <i>17</i> | 71,907 | 89,887 |
| Interests in associates | <i>18</i> | 1,593,166 | 1,507,801 |
| Deferred tax assets | <i>26</i> | 13,398 | 10,043 |
| | | <u>2,143,542</u> | <u>2,062,493</u> |
| CURRENT ASSETS | | | |
| Short term investments | <i>19</i> | 24,250 | 19,637 |
| Inventories | <i>20</i> | 74,986 | 92,033 |
| Deposits and other receivables | | 23,166 | 22,872 |
| Trade receivables | <i>21</i> | 95,498 | 255,881 |
| Cash and cash equivalents | <i>22</i> | 182,539 | 99,575 |
| | | <u>400,439</u> | <u>489,998</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 116,519 | 109,559 |
| Trade and bills payables | <i>23</i> | 125,517 | 262,674 |
| Tax payable | | 40,974 | 46,069 |
| Interest-bearing bank and other borrowings | <i>24</i> | 73,113 | 84,517 |
| | | <u>356,123</u> | <u>502,819</u> |
| NET CURRENT ASSETS/(LIABILITIES) | | <u>44,316</u> | <u>(12,821)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES — PAGE 32 | | <u>2,187,858</u> | <u>2,049,672</u> |

APPENDIX I**FINANCIAL INFORMATION**

| | | 2004 | 2003 |
|--|--------------|------------------|-------------------------------|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> (Restated) |
| TOTAL ASSETS LESS CURRENT LIABILITIES — PAGE 31 | | <u>2,187,858</u> | <u>2,049,672</u> |
| NON-CURRENT LIABILITIES | | | |
| Note payable | 25 | 195,000 | 210,000 |
| Long term deposits received | | — | 6,875 |
| Interest-bearing bank and other borrowings | 24 | <u>38,800</u> | <u>—</u> |
| | | <u>233,800</u> | <u>216,875</u> |
| MINORITY INTERESTS | | <u>144,320</u> | <u>122,484</u> |
| | | <u>1,809,738</u> | <u>1,710,313</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | 27 | 718,855 | 718,855 |
| Reserves | 28(a) | <u>1,090,883</u> | <u>991,458</u> |
| | | <u>1,809,738</u> | <u>1,710,313</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31st July, 2004

| | Note | Issued capital HK\$'000 | Share premium account HK\$'000 | Fixed asset revaluation reserve HK\$'000 | Investment property revaluation reserve HK\$'000 | Capital reserve HK\$'000 | General reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|------|----------------------------|-----------------------------------|---|---|-----------------------------|-----------------------------|--|--------------------------------|-------------------|
| At 1st August, 2002 | | | | | | | | | | |
| As previously reported | | 718,855 | 1,119,738 | 19,785 | — | 4,420,547 | 57 | 28,908 | (4,466,137) | 1,841,753 |
| Prior year adjustment: SSAP 12 — restatement of deferred tax | 26 | — | — | — | — | (83,781) | — | — | (10,129) | (93,910) |
| As restated | | 718,855 | 1,119,738 | 19,785 | — | 4,336,766 | 57 | 28,908 | (4,476,266) | 1,747,843 |
| Exchange realignment: | | | | | | | | | | |
| Subsidiaries | | — | — | — | — | — | — | 70 | — | 70 |
| Associates | | — | — | — | — | — | — | (326) | — | (326) |
| Share of reserves of associates | | — | — | — | — | (1,572) | — | — | 1,867 | 295 |
| Surplus on revaluation of fixed assets on their transfer to investment properties | | — | — | 47,541 | — | — | — | — | — | 47,541 |
| Net gains and losses not recognised in the profit and loss account | | — | — | 47,541 | — | (1,572) | — | (256) | 1,867 | 47,580 |
| Net loss for the year (as restated) | | — | — | — | — | — | — | — | (85,110) | (85,110) |
| At 31st July, 2003 and 1st August, 2003 | | <u>718,855</u> | <u>1,119,738</u> | <u>67,326</u> | <u>—</u> | <u>4,335,194</u> | <u>57</u> | <u>28,652</u> | <u>(4,559,509)</u> | <u>1,710,313</u> |
| At 31st July, 2003 and 1st August, 2003 | | | | | | | | | | |
| As previously reported | | 718,855 | 1,119,738 | 67,326 | — | 4,418,975 | 57 | 28,652 | (4,495,336) | 1,858,267 |
| Prior year adjustment: SSAP 12 — restatement of deferred tax | 26 | — | — | — | — | (83,781) | — | — | (64,173) | (147,954) |
| As restated | | 718,855 | 1,119,738 | 67,326 | — | 4,335,194 | 57 | 28,652 | (4,559,509) | 1,710,313 |
| Exchange realignment: | | | | | | | | | | |
| Subsidiaries | | — | — | — | — | — | — | (78) | — | (78) |
| Associates | | — | — | — | — | — | — | (360) | — | (360) |
| Surplus on revaluation of a fixed asset on its transfer to investment property | | — | — | 305 | — | — | — | — | — | 305 |
| Net gains and losses not recognised in the profit and loss account | | — | — | 305 | — | — | — | (438) | — | (133) |
| Released on disposal of an investment property | | — | — | — | (1,018) | — | — | — | — | (1,018) |
| Transfer to accumulated losses upon disposal of a fixed asset | | — | — | (2,291) | — | — | — | — | 2,291 | — |
| Deficit on revaluation of investment properties charged to profit and loss account | | — | — | — | 1,018 | — | — | — | — | 1,018 |
| Negative goodwill released on deemed disposal of an associate | | — | — | — | — | (19,612) | — | — | — | (19,612) |
| Negative goodwill released on deregistration of a subsidiary | | — | — | — | — | (4,400) | — | — | — | (4,400) |
| Net profit for the year | | — | — | — | — | — | — | — | 123,570 | 123,570 |
| At 31st July, 2004 | | <u>718,855</u> | <u>1,119,738*</u> | <u>65,340*</u> | <u>—*</u> | <u>4,311,182*</u> | <u>57*</u> | <u>28,214*</u> | <u>(4,433,648)*</u> | <u>1,809,738</u> |

* These reserve accounts comprise the consolidated reserves of HK\$1,090,883,000 (2003: HK\$991,458,000 (restated)) in the consolidated balance sheet.

APPENDIX I
FINANCIAL INFORMATION

| | Issued capital <i>HK\$'000</i> | Share premium account <i>HK\$'000</i> | Fixed asset revaluation reserve <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | General reserve <i>HK\$'000</i> | Exchange fluctuation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------|--------------------------------------|--|--|---------------------------------------|---------------------------------------|---|--|--------------------------|
| Reserves retained by: | | | | | | | | |
| Company and subsidiaries | 718,855 | 1,119,738 | 65,340 | 3,807,201 | 57 | 5,134 | 708,353 | 6,424,678 |
| Associates | — | — | — | 503,981 | — | 23,080 | (5,142,001) | (4,614,940) |
| At 31st July, 2004 | <u>718,855</u> | <u>1,119,738</u> | <u>65,340</u> | <u>4,311,182</u> | <u>57</u> | <u>28,214</u> | <u>(4,433,648)</u> | <u>1,809,738</u> |
| Company and subsidiaries | 718,855 | 1,119,738 | 67,326 | 3,831,213 | 57 | 5,212 | 610,723 | 6,353,124 |
| Associates | — | — | — | 503,981 | — | 23,440 | (5,170,232) | (4,642,811) |
| At 31st July, 2003 | <u>718,855</u> | <u>1,119,738</u> | <u>67,326</u> | <u>4,335,194</u> | <u>57</u> | <u>28,652</u> | <u>(4,559,509)</u> | <u>1,710,313</u> |

Certain amounts of negative goodwill arising on the acquisition of subsidiaries and associates, remain in the capital reserve and are further explained in notes 17 and 18 to the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st July, 2004

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> (Restated) |
|---|--------------|--------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before tax | | 183,573 | (61,580) |
| Adjustments for: | | | |
| Amortisation of goodwill on acquisition of subsidiaries | 7 | 17,980 | 17,980 |
| Deficit/(surplus) on revaluation of investment properties | 7 | (12,362) | 23,700 |
| Depreciation | 7 | 7,012 | 7,965 |
| Dividend income from short term listed investments | 7 | (584) | (845) |
| Gain on deregistration of a subsidiary | 7 | (4,400) | — |
| Interest income | 7 | (611) | (701) |
| Impairment of properties under development | 7 | — | 943 |
| Loss on disposal of fixed assets | 7 | 1,079 | 1,041 |
| Gain on disposal of investment properties | 7 | (1,018) | — |
| Provision for doubtful debts | 7 | 251 | 523 |
| Provision/(write-back of provision) for slow-moving inventories | 7 | (13,063) | 29,917 |
| Provision for amount due from an associate | 7 | 821 | — |
| Unrealised gains of short term investments | 7 | (4,613) | (1,487) |
| Finance costs | 8 | 12,336 | 13,099 |
| Share of profits and losses of associates | | (62,968) | 68,531 |
| Negative goodwill recognised | | (24,865) | (11,329) |
| Loss on deemed disposal of an associate | 7 | 5,614 | — |
| Operating profit before working capital changes | | 104,182 | 87,757 |
| Decrease/(increase) in amounts due from associates | | (32) | 234 |
| Increase/(decrease) in amounts due to associates | | 163 | (1,229) |
| Decrease in inventories | | 30,110 | 16,614 |
| Decrease in trade receivables, deposits and other receivables | | 159,838 | 112,933 |
| Decrease in trade and bills payables, long term deposits received, other payables and accruals | | (137,072) | (156,969) |
| Cash generated from operations | | 157,189 | 59,340 |
| Hong Kong profits tax paid | | (17,923) | (317) |
| Overseas taxes paid | | — | (941) |
| Net cash inflow from operating activities — page 36 | | 139,266 | 58,082 |

APPENDIX I**FINANCIAL INFORMATION**

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> (Restated) |
|---|--------------|--------------------------------|--|
| Net cash inflow from operating activities — page 35 | | <u>139,266</u> | <u>58,082</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Dividends received from short term listed investments | | 584 | 845 |
| Interest received | | 611 | 701 |
| Proceeds from disposal of fixed assets | | 1,602 | 15 |
| Proceeds from disposal of investment properties | | 1,300 | — |
| Purchases of fixed assets | | (5,614) | (6,864) |
| Addition to properties under development | | (1,883) | — |
| Subscription of rights shares of an associate | | <u>(53,014)</u> | <u>(35,343)</u> |
| Net cash outflow from investing activities | | <u>(56,414)</u> | <u>(40,646)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase/(decrease) in trust receipt loans | | (1,309) | 143 |
| Interest paid on bank loans, overdrafts and other borrowings | | (12,336) | (13,099) |
| Proceeds from new borrowings | | 38,803 | — |
| Repayment of bank loans and other borrowings | | (10,000) | (2,367) |
| Repayment of note payable | | <u>(15,000)</u> | <u>—</u> |
| Net cash inflow/(outflow) from financing activities | | <u>158</u> | <u>(15,323)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 97,245 | 95,173 |
| Effect of foreign exchange rate changes, net | | 52 | (41) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u><u>180,307</u></u> | <u><u>97,245</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 22 | 182,539 | 78,718 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 22 | — | 20,857 |
| Bank overdrafts | 24 | <u>(2,232)</u> | <u>(2,330)</u> |
| | | <u><u>180,307</u></u> | <u><u>97,245</u></u> |

BALANCE SHEET*31st July, 2004*

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | <i>13</i> | 5,373 | 4,011 |
| Investment properties | <i>14</i> | 74,980 | 63,900 |
| Interests in subsidiaries | <i>16</i> | 601,424 | 586,911 |
| Interests in associates | <i>18</i> | 406,297 | 370,868 |
| | | <u>1,088,074</u> | <u>1,025,690</u> |
| CURRENT ASSETS | | | |
| Short term investments | <i>19</i> | 24,250 | 19,637 |
| Deposits and other receivables | | 2,263 | 4,501 |
| Trade receivables | | 84,933 | 229,033 |
| Cash and cash equivalents | <i>22</i> | 22,002 | 28,026 |
| | | <u>133,448</u> | <u>281,197</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 24,012 | 23,954 |
| Trade payables | | 91,633 | 234,624 |
| Tax payable | | 17,949 | 24,573 |
| Interest-bearing bank and other borrowings | <i>24</i> | 30,010 | 40,007 |
| | | <u>163,604</u> | <u>323,158</u> |
| NET CURRENT LIABILITIES | | <u>(30,156)</u> | <u>(41,961)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,057,918 | 983,729 |
| NON-CURRENT LIABILITIES | | | |
| Note payable | <i>25</i> | 195,000 | 210,000 |
| Long term deposits received | | — | 6,875 |
| Interest-bearing bank and other borrowings | <i>24</i> | 38,800 | — |
| | | <u>233,800</u> | <u>216,875</u> |
| | | <u>824,118</u> | <u>766,854</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | <i>27</i> | 718,855 | 718,855 |
| Reserves | <i>28(b)</i> | 105,263 | 47,999 |
| | | <u>824,118</u> | <u>766,854</u> |

NOTES TO FINANCIAL STATEMENTS*31st July, 2004***1. Corporate Information**

During the year, the principal activities of the Group consisted of the manufacture and trading of garments, property development, property investment and investment holding.

2. Impact of a Revised Statement of Standard Accounting Practice (“SSAP”)

The following revised SSAP is effective for the first time for the current year’s financial statements:

- SSAP 12 (Revised): “Income taxes”

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP which has had a significant effect on the financial statements, are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 26 to the financial statements and include a reconciliation between the accounting profit/(loss) and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 26 to the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, fixed assets and short term investments in securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 “Business combinations” in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill that remains eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group’s share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. For negative goodwill which does not relate to depreciable/amortisable assets, the negative goodwill is recognised in the consolidated profit and loss account when the related assets are sold or utilised. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 “Business combinations” in 2001, negative goodwill arising on acquisitions was credited to capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. No depreciation is provided for investment properties.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|-----------------------------------|--------------------------------|
| Leasehold land | Over the unexpired lease terms |
| Buildings | 2%-5% |
| Leasehold improvements | 2.5%-20% |
| Plant and machinery | 10% |
| Furniture, fixtures and equipment | 5%-20% |
| Motor vehicles | 10%-25% |
| Computers | 10%-25% |
| Motor vessels | 25% |

The transitional provisions set out in paragraph 72 of SSAP 17 “Property, plant and equipment” have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements in periods ended before 30th September, 1995 have not been further revalued to fair value at subsequent balance sheet dates. It is the directors’ intention not to revalue these assets in the future.

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

On a transfer of a revalued asset to investment properties, the remaining fixed asset revaluation reserve arising from that asset is frozen and remains as a fixed asset revaluation reserve until the asset is sold, when the frozen fixed asset revaluation reserve is transferred to retained earnings as a movement in reserves.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm’s length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties under development

Properties under development are stated at cost less any impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost includes the cost of materials computed using the first-in, first-out method and, in the case of work in progress and finished goods, cost includes direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Textile quota entitlements

The Group is entitled to certain textile quotas. Temporary textile quota purchased from outside parties are written off to the profit and loss account at the time of utilisation, or in the absence of such utilisation, upon the expiry of the relevant utilisation period. Temporary textile quotas granted by government are not capitalised as assets in the balance sheet. The profit on the transfer of temporary textile quota entitlements to a third party is recognised upon the execution of a legally binding, unconditional and irrevocable transfer form.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods and transfer of quotas, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the sale of properties held for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the Hong Kong Special Administrative Region Government or a completion certificate by the relevant government authorities, whichever is later;
- (c) rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (d) property management fee income, when the services are rendered;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (f) dividend income, when the shareholders' right to receive payment has been established; and
- (g) royalty income, when the right to receive the income is established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a financial year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

The Group operates defined contribution pension schemes under the Mandatory Provident Fund Schemes Ordinance (the "MPF Schemes") for those employees who are eligible to participate in the MPF Schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

The employees of the Group's subsidiaries which operate in the Mainland of China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they became payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. The capitalisation rate for the year is based on the weighted average of the attributable borrowing costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the garment operation segment engages in the trading and distribution of garments and the transfer of textile quotas;
- (b) the property development segment engages in property development and the sale of properties;
- (c) the property investment segment comprises the leasing of commercial and residential premises; and
- (d) the "others" segment comprises, principally, the Group's property management service business, and corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

| | Garment operation | | Property development | | Property investment | | Others | | Eliminations | | Consolidated | |
|---|-------------------|------------------|----------------------|----------------|---------------------|-----------------|-----------------|-----------------|--------------|----------------|----------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | | | | | | | | | (Restated) |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 827,185 | 1,268,361 | — | — | 16,765 | 14,054 | 14,805 | 12,826 | — | — | 858,755 | 1,295,241 |
| Intersegment sales | — | — | — | — | 525 | 3,999 | — | — | (525) | (3,999) | — | — |
| Other revenue | 19,321 | 6,802 | — | — | 13,592 | 211 | — | — | — | — | 32,913 | 7,013 |
| Total | <u>846,506</u> | <u>1,275,163</u> | <u>—</u> | <u>—</u> | <u>30,882</u> | <u>18,264</u> | <u>14,805</u> | <u>12,826</u> | <u>(525)</u> | <u>(3,999)</u> | <u>891,668</u> | <u>1,302,254</u> |
| Segment results | <u>81,015</u> | <u>29,902</u> | <u>(65)</u> | <u>(1,239)</u> | <u>29,820</u> | <u>(10,184)</u> | <u>(13,250)</u> | <u>(13,160)</u> | <u>—</u> | <u>—</u> | <u>97,520</u> | <u>5,319</u> |
| Interest income and unallocated other revenue and gains | | | | | | | | | | | 10,556 | 3,402 |
| Profit from operating activities | | | | | | | | | | | 108,076 | 8,721 |
| Finance costs | | | | | | | | | | | (12,336) | (13,099) |
| Share of profits and losses of associates | | | | | | | | | | | 62,968 | (68,531) |
| Negative goodwill recognised | | | | | | | | | | | 24,865 | 11,329 |
| Profit/(loss) before tax | | | | | | | | | | | 183,573 | (61,580) |
| Tax | | | | | | | | | | | (38,417) | (50,017) |
| Profit/(loss) before minority interests | | | | | | | | | | | 145,156 | (111,597) |
| Minority interests | | | | | | | | | | | (21,586) | 26,487 |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | | | <u>123,570</u> | <u>(85,110)</u> |

APPENDIX I
FINANCIAL INFORMATION

| | Garment operation | | Property development | | Property investment | | Others | | Consolidated | |
|---|-------------------|----------------|----------------------|----------------|---------------------|----------------|---------------|---------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Segment assets | 305,316 | 501,068 | 179,330 | 177,334 | 267,606 | 254,297 | 2,626 | 2,373 | 754,878 | 935,072 |
| Interests in associates | | | | | | | | | 1,593,166 | 1,507,801 |
| Unallocated assets | | | | | | | | | 195,937 | 109,618 |
| Total assets | 305,316 | 501,068 | 179,330 | 177,334 | 267,606 | 254,297 | 2,626 | 2,373 | 2,543,981 | 2,552,491 |
| Segment liabilities | 225,735 | 362,026 | 2,989 | 2,986 | 1,131 | 907 | 12,982 | 13,190 | 242,837 | 379,109 |
| Unallocated liabilities | | | | | | | | | 347,086 | 340,585 |
| Total liabilities | 225,735 | 362,026 | 2,989 | 2,986 | 1,131 | 907 | 12,982 | 13,190 | 589,923 | 719,694 |
| Other segment information: | | | | | | | | | | |
| Depreciation | 6,574 | 7,501 | 12 | 22 | 291 | 289 | 135 | 153 | 7,012 | 7,965 |
| Amortisation of goodwill on acquisition of subsidiaries | 17,980 | 17,980 | — | — | — | — | — | — | 17,980 | 17,980 |
| Deficit/(surplus) on revaluation of investment properties | — | — | — | — | (12,362) | 23,700 | — | — | (12,362) | 23,700 |
| Impairment of properties under development | — | — | — | 943 | — | — | — | — | — | 943 |
| Capital expenditure | 4,735 | 6,565 | — | — | 838 | 245 | 41 | 54 | 5,614 | 6,864 |

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

| | Hong Kong | | Mainland of China | | United States of America | | Consolidated | |
|-----------------------------|-----------|------------|-------------------|------------|--------------------------|------------|--------------|------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 247,892 | 253,703 | 232,719 | 246,047 | 378,144 | 795,491 | 858,755 | 1,295,241 |
| Other segment information: | | | | | | | | |
| Segment assets | 440,114 | 448,990 | 227,096 | 254,032 | 87,668 | 232,050 | 754,878 | 935,072 |
| Capital expenditure | 4,754 | 4,936 | 860 | 1,928 | — | — | 5,614 | 6,864 |

5. Related Party Transactions

- (a) In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

| | | Group | |
|--|--------------|-----------------|-----------------|
| | | 2004 | 2003 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Rental expenses paid and payable to associates | <i>(i)</i> | 5,250 | 8,996 |
| Interest expense paid to a shareholder | <i>(ii)</i> | <u>10,583</u> | <u>10,571</u> |

Notes:

- (i) The rental expenses were charged by the associate pursuant to the respective lease agreements.
- (ii) The interest was charged by a shareholder at the best lending rate quoted by a designated bank in Hong Kong in respect of the note payable (*note 25*).
- (b) Mr. Lim Por Yen, an executive director and a substantial shareholder of the Company, has granted a loan facility up to HK\$100 million to the Company. The facility is unsecured, bearing interest at the best lending rate quoted by a designated bank in Hong Kong and will expire on 30th November, 2005. As at 31st July, 2004, the outstanding balance was HK\$38,800,000 (2003: Nil) and was included in the Group's other borrowings (*note 24*).

6. Turnover

Turnover comprises the net invoiced value of garments sold, proceeds from the transfer of textile quotas, rental income and income from other operations. Revenue from the following activities has been included in turnover.

| | Group | |
|---|-----------------|------------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Sale of garments and transfer of textile quotas | 827,184 | 1,268,361 |
| Property rentals | 16,765 | 14,054 |
| Other operations | <u>14,806</u> | <u>12,826</u> |
| | <u>858,755</u> | <u>1,295,241</u> |

7. Profit from Operating Activities

This is arrived at after charging/(crediting):

| | Group | |
|---|----------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Auditors' remuneration | 1,735 | 1,665 |
| Amortisation of goodwill on acquisition of subsidiaries* | 17,980 | 17,980 |
| Deficit/(surplus) on revaluation of investment properties | (12,362) | 23,700 |
| Depreciation | 7,012 | 7,965 |
| Foreign exchange losses, net | 706 | 202 |
| Impairment of properties under development | — | 943 |
| Loss on disposal of fixed assets | 1,079 | 1,041 |
| Loss on deemed disposal of an associate | 5,614 | — |
| Minimum lease payments under operating leases in respect of land and buildings | 59,094 | 67,479 |
| Provision for doubtful debts | 251 | 523 |
| Provision/(write-back of provision) for slow-moving inventories | (13,063) | 29,917 |
| Provision for amount due from an associate | 821 | — |
| Staff costs (including directors' remuneration — see note 9): | | |
| Wages and salaries | 89,333 | 102,097 |
| Pension scheme contributions | 2,446 | 2,857 |
| Less: Forfeited contributions | — | (219) |
| Net pension scheme contributions** | 2,446 | 2,638 |
| | 91,779 | 104,735 |
| Gain on disposal of investment properties | (1,018) | — |
| Unrealised gains of short term investments | (4,613) | (1,487) |
| Dividend income from short term listed investments | (584) | (845) |
| Gain on deregistration of a subsidiary | (4,400) | — |
| Interest income from bank deposits | (579) | (653) |
| Other interest income | (32) | (48) |
| Rental income | (16,765) | (14,054) |
| Less: Outgoings | 822 | 1,152 |
| Net rental income | (15,943) | (12,902) |

* This amount is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** As at 31st July, 2004, no forfeited contributions were available to the Group to reduce its contributions to the pension schemes in future years (2003: HK\$219,000).

8. Finance Costs

| | Group | |
|--|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | <u>12,336</u> | <u>13,099</u> |

9. Directors' Remuneration and Five Highest Paid Employees

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

| | Group | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees | 614 | 608 |
| Other emoluments: | | |
| Basic salaries, housing and other allowances and benefits in kind | 9,025 | 10,357 |
| Bonuses paid and payable | 550 | 1,530 |
| Pension scheme contributions | 38 | 38 |
| | <u>10,227</u> | <u>12,533</u> |

Fees include HK\$106,000 (2003: HK\$106,000) paid to independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

| | Group | |
|-------------------------------|---------------------|---------------------|
| | 2004 | 2003 |
| | Number of directors | Number of directors |
| Nil — HK\$1,000,000 | 9 | 9 |
| HK\$1,000,001 — HK\$1,500,000 | 1 | 1 |
| HK\$2,500,001 — HK\$3,000,000 | 1 | — |
| HK\$4,000,001 — HK\$4,500,000 | — | 1 |
| HK\$5,000,001 — HK\$5,500,000 | 1 | — |
| HK\$6,000,001 or above | — | 1 |
| | <u>12</u> | <u>12</u> |

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

(b) Five highest paid employees

The five highest paid employees during the year included two directors (2003: three directors), details of whose emoluments are set out in (a) above. Details of the remuneration of the remaining three (2003: two) non-director, highest paid employees are set out below:

| | Group | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Basic salaries, housing and other allowances and benefits in kind | 2,626 | 4,460 |
| Bonuses paid and payable | 8,900 | 2,000 |
| Pension scheme contributions | 41 | 24 |
| | <u>11,567</u> | <u>6,484</u> |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Group | |
|-------------------------------|----------------------------|----------------------------|
| | Number of employees | Number of employees |
| HK\$1,500,001 — HK\$2,000,000 | 1 | — |
| HK\$2,000,001 — HK\$2,500,000 | — | 1 |
| HK\$3,000,001 — HK\$3,500,000 | 1 | — |
| HK\$3,500,001 — HK\$4,000,000 | — | 1 |
| HK\$6,500,001 — HK\$7,000,000 | 1 | — |
| | <u>3</u> | <u>2</u> |

10. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Restated) |
| Provision for tax for the year: | | |
| Current — Hong Kong | 13,635 | 18,202 |
| Deferred (<i>note 26</i>) | (3,355) | 638 |
| | <u>10,280</u> | <u>18,840</u> |
| Prior year underprovision/(overprovision): | | |
| Hong Kong | (807) | 500 |
| Share of tax attributable to associates | <u>28,944</u> | <u>30,677</u> |
| Tax charge for the year | <u><u>38,417</u></u> | <u><u>50,017</u></u> |

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates are as follows:

| | Group | |
|---|----------------------|----------------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit/(loss) before tax | <u>183,573</u> | <u>(61,580)</u> |
| Tax at the statutory rate of 17.5% (2003: 17.5%) | 32,125 | (10,777) |
| Higher tax rate of other countries | (1,595) | (7,621) |
| Tax effect of results attributable to associates | 13,571 | 40,687 |
| Effect on opening deferred tax of increase in rates | — | (1,001) |
| Income not subject to tax | (8,350) | (6,122) |
| Expenses not deductible for tax | 12,790 | 12,483 |
| Adjustments in respect of current tax of previous periods | (807) | 500 |
| Tax losses utilised from previous periods | (7,129) | — |
| Temporary differences not recognised | <u>(2,188)</u> | <u>21,868</u> |
| Tax charge at the Group's effective rate | <u><u>38,417</u></u> | <u><u>50,017</u></u> |

11. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31st July, 2004 dealt with in the financial statements of the Company was HK\$45,902,000 (2003: HK\$73,903,000) (*note 28(b)*).

12. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$123,570,000 (2003: net loss of HK\$85,110,000 (restated)) and the weighted average number of 1,437,709,710 (2003: 1,437,709,710) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the adjusted net profit attributable to shareholders for the year of HK\$123,358,000 and the weighted average number of 1,437,709,710 ordinary shares in issue during the year.

The adjusted net profit attributable to shareholders is calculated based on the net profit attributable to shareholders for the year of HK\$123,570,000 less the dilution in the results of an associate, Lai Fung Holdings Limited (“Lai Fung”), attributable to the Group by HK\$212,000 arising from the deemed exercise of all Lai Fung’s share options being outstanding during the year.

The diluted earnings per share for the year ended 31st July, 2003 has not been disclosed as no diluting events existed during that year.

13. Fixed Assets*Group*

| | 31st July, 2003 HK\$'000 | Additions HK\$'000 | Disposals HK\$'000 | Revaluation HK\$'000 | Transfer to investment properties HK\$'000 | 31st July, 2004 HK\$'000 |
|-----------------------------------|--------------------------------|-----------------------|-----------------------|-------------------------|---|--------------------------------|
| Cost or valuation: | | | | | | |
| Leasehold land and buildings | 26,858 | — | (2,400) | 20 | (6,700) | 17,778 |
| Leasehold improvements | 753 | — | — | — | — | 753 |
| Plant and machinery | 22,245 | 359 | (4,484) | — | — | 18,120 |
| Furniture, fixtures and equipment | 67,891 | 3,474 | (12,343) | — | — | 59,022 |
| Motor vehicles | 14,301 | 1,356 | (506) | — | — | 15,151 |
| Computers | 16,746 | 425 | (1,063) | — | — | 16,108 |
| Motor vessels | 16,951 | — | — | — | — | 16,951 |
| | <u>165,745</u> | <u>5,614</u> | <u>(20,796)</u> | <u>20</u> | <u>(6,700)</u> | <u>143,883</u> |
| Accumulated depreciation: | | | | | | |
| Leasehold land and buildings | 10,063 | 895 | (1,073) | (535) | — | 9,350 |
| Leasehold improvements | 746 | 5 | — | — | — | 751 |
| Plant and machinery | 19,690 | 732 | (4,292) | — | — | 16,130 |
| Furniture, fixtures and equipment | 58,861 | 3,701 | (11,290) | — | — | 51,272 |
| Motor vehicles | 12,800 | 531 | (506) | — | — | 12,825 |
| Computers | 15,169 | 1,148 | (954) | — | — | 15,363 |
| Motor vessels | 16,951 | — | — | — | — | 16,951 |
| | <u>134,280</u> | <u>7,012</u> | <u>(18,115)</u> | <u>(535)</u> | <u>—</u> | <u>122,642</u> |
| Net book value | <u>31,465</u> | | | | | <u>21,241</u> |

The Group’s leasehold land and buildings are held under long term leases and are situated outside Hong Kong.

Company

| | 31st July, 2003 | Additions | Disposals | 31st July, 2004 |
|---|----------------------------|------------------|------------------|----------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost or valuation: | | | | |
| Medium term leasehold land and buildings situated in Hong Kong | 2,400 | — | (2,400) | — |
| Furniture, fixtures and equipment | 7,614 | 2,595 | — | 10,209 |
| Motor vehicles | 10,590 | 1,356 | — | 11,946 |
| Motor vessels | 16,951 | — | — | 16,951 |
| | <u>37,555</u> | <u>3,951</u> | <u>(2,400)</u> | <u>39,106</u> |
| Accumulated depreciation: | | | | |
| Medium term leasehold land and buildings situated in Hong Kong | 1,073 | — | (1,073) | — |
| Furniture, fixtures and equipment | 5,594 | 838 | — | 6,432 |
| Motor vehicles | 9,926 | 424 | — | 10,350 |
| Motor vessels | 16,951 | — | — | 16,951 |
| | <u>33,544</u> | <u>1,262</u> | <u>(1,073)</u> | <u>33,733</u> |
| Net book value | <u>4,011</u> | | | <u>5,373</u> |

No land and building of the Group was pledged to banks to secure banking facilities granted to the Group (2003: HK\$6,239,000).

The Group's leasehold land and buildings as at balance sheet date are stated at cost.

14. Investment Properties

| | Group | | Company | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At beginning of year, at valuation | 246,900 | 221,100 | 63,900 | 16,100 |
| Disposals | (1,300) | — | (1,300) | — |
| Transfer from fixed assets | 6,700 | 49,500 | — | 49,500 |
| Surplus/(deficit) on revaluation | 13,380 | (23,700) | 12,380 | (1,700) |
| | <u>265,680</u> | <u>246,900</u> | <u>74,980</u> | <u>63,900</u> |

The Group's and the Company's investment properties are situated in Hong Kong and are held under medium term leases.

At 31st July, 2004, the Group's investment properties were revalued by Centaline Surveyors Limited, independent professionally qualified valuers or by Chesterton Petty Limited, independent chartered surveyors, on an open market basis.

Certain investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 30(a) to the financial statements.

Certain investment properties of the Group and of the Company with carrying values of HK\$264,200,000 (2003: HK\$244,300,000) and HK\$73,500,000 (2003: HK\$61,300,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

15. Properties Under Development

| | Group | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At beginning of year, at carrying value | 176,397 | 177,228 |
| Additions | 1,883 | — |
| Impairment provided for during the year | — | (943) |
| Exchange realignment | (130) | 112 |
| | 178,150 | 176,397 |
| At end of year, at carrying value | 178,150 | 176,397 |

The Group's properties under development are situated outside Hong Kong and are held under long term leases. These properties were carried at cost less impairment in both years.

The balance at 31st July, 2004 represents the carrying value of a property development project of Shanghai Hu Xin Real Estate Development Co., Ltd. ("Hu Xin"), a subsidiary of the Group, undertaken in Shanghai, Mainland China.

Pursuant to a land use rights agreement entered into between Hu Xin and the Shanghai Land Administration Bureau (the "Land Administration Bureau") in September 1995, Hu Xin had to complete 60% of the development project by 31st December, 1998, and the entire project by 31st December, 2000 (the "Completion Date"). If the completion was delayed, a penalty would be charged at (1) 1% of the land consideration of RMB13,745,000 during the first six months after the Completion Date; (2) 3% during the following six months; and (3) 7% during the second year after the Completion Date. If the project was not completed within two years after the Completion Date, the Land Administration Bureau would have the right to repossess the land use rights.

On 25th December, 1998 and subsequently on 18th December, 2002, Hu Xin extended the Completion Date to 31st December, 2002 and then to 31st December, 2004. If the project is not completed during the period from 1st January, 2005 to 31st December, 2006, Hu Xin will be subject to the above mentioned penalty to a maximum amount of RMB1,540,000. During the year, the Group submitted an application for another extension of the Completion Date. The Group is currently preparing for additional information and documents requested by the Land Administration Bureau for its consideration of the extension application.

16. Interests in Subsidiaries

| | Company | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Shares listed in Hong Kong, at cost | 7,265 | 7,265 |
| Unlisted shares, at cost | 486 | 486 |
| | 7,751 | 7,751 |
| Amounts due from subsidiaries | 1,082,518 | 1,065,897 |
| Amounts due to subsidiaries | (113,947) | (111,839) |
| | 968,571 | 954,058 |
| Provision for impairment | (374,898) | (374,898) |
| | 593,673 | 579,160 |
| | 601,424 | 586,911 |
| Market value of listed shares at the balance sheet date | 920 | 600 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries are as follows:

| Name of company | Place of incorporation/ registration and operations | Nominal value of issued/ registered share capital | Class of shares held | Percentage of equity interest attributable to the Company | | Principal activities |
|--|---|---|----------------------|---|----------|-----------------------------------|
| | | | | Direct | Indirect | |
| Creative Fashions Limited | Hong Kong | HK\$500,000 | Ordinary | 100.00 | — | Garment trading |
| Crocodile (China) Limited | Hong Kong | HK\$4 | Ordinary | — | 54.93 | Garment trading |
| Crocodile Garments Limited | Hong Kong | HK\$154,281,783 | Ordinary | 0.43 | 54.50 | Garment manufacturing and trading |
| Crocodile Garments (Zhong Shan) Limited | Mainland China | HK\$17,200,000 | * | — | 49.44** | Garment manufacturing and trading |
| Dackart Trading Company Limited | Hong Kong | HK\$20 | Ordinary | — | 54.93 | Property investment |
| Gold Nation Development Limited | Hong Kong | HK\$2 | Ordinary | — | 54.93 | Property investment |
| Joy Mind Limited | Hong Kong | HK\$2 | Ordinary | 100.00 | — | Investment holding |
| Kingscord Investment Limited | Hong Kong | HK\$2 | Ordinary | — | 100.00 | Investment holding |
| Kingscord Real Estate (Shanghai) Co., Ltd. | Mainland China | US\$1,500,000 | * | — | 100.00 | Investment holding |

| Name of company | Place of incorporation/ registration and operations | Nominal value of issued/ registered share capital | Class of shares held | Percentage of equity interest attributable to the Company | | Principal activities |
|---|---|--|----------------------------|---|----------|---|
| | | | | Direct | Indirect | |
| Shanghai Hu Xin Real Estate Development Co., Ltd. | Mainland China | US\$6,000,000 | * | — | 95.00 | Property development and investment |
| Shenton Investment Limited | Hong Kong | HK\$2 | Ordinary | — | 54.93 | Property investment |
| Silver Glory Securities Limited | British Virgin Islands | US\$1 | Ordinary | 100.00 | — | Investment holding |

* These subsidiaries have registered rather than issued share capital.

** Crocodile Garments (Zhong Shan) Limited is a 90% owned subsidiary of Crocodile Garments Limited and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group at the balance sheet date. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

As at 31st July, 2004, 96,000,000 ordinary shares of Crocodile Garments Limited ("Crocodile") held by the Group were pledged to a bank to secure banking facilities granted to the Company.

17. Goodwill

The amount of goodwill capitalised as an asset arising from the acquisition of subsidiaries is as follows:

| | Group | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Cost: | | |
| At beginning and at end of year | 534,373 | 534,373 |
| Accumulated amortisation and impairment: | | |
| At beginning of year | 444,486 | 426,506 |
| Amortisation provided during the year | 17,980 | 17,980 |
| At end of year | 462,466 | 444,486 |
| Net book value | 71,907 | 89,887 |

There was no goodwill arising on the acquisitions of subsidiaries in prior years that was eliminated against consolidated reserves.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP to remain credited to the capital reserve.

The amount of negative goodwill remaining in consolidated reserves, which arose from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK\$7,994,000 as at 1st August, 2003 and HK\$3,594,000 as at 31st July, 2004.

18. Interests in Associates

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Restated) | | | |
| Shares listed in Hong Kong, at cost | — | — | 2,381,057 | 2,344,673 |
| Share of net assets | 2,364,202 | 2,318,578 | — | — |
| Negative goodwill on acquisition | (770,501) | (811,194) | — | — |
| | <u>1,593,701</u> | <u>1,507,384</u> | <u>2,381,057</u> | <u>2,344,673</u> |
| Amounts due from associates | 2,603 | 2,571 | 1,647 | 2,435 |
| Amounts due to associates | (2,182) | (2,019) | (2,182) | (2,015) |
| | <u>1,594,122</u> | <u>1,507,936</u> | <u>2,380,522</u> | <u>2,345,093</u> |
| Provision for impairment | (956) | (135) | (1,974,225) | (1,974,225) |
| | <u>1,593,166</u> | <u>1,507,801</u> | <u>406,297</u> | <u>370,868</u> |
| Market value of listed shares at balance sheet date | <u>598,226</u> | <u>356,875</u> | <u>448,788</u> | <u>265,079</u> |

The balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$2,276,000 (2003: HK\$252,000) due from an associate which bears interest at the prevailing market rate.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions, which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve.

The amount of negative goodwill remaining in the capital reserve, arising from the acquisition of associates prior to the adoption of SSAP 30 in 2001, was HK\$3,822,873,000 (restated) as at 1st August, 2003 and HK\$3,803,261,000 as at 31st July, 2004.

The amount of negative goodwill recognised in the consolidated balance sheet arising from the acquisition of associates which was accounted for in accordance with SSAP 30 is as follows:

Group

| | <i>HK\$'000</i> |
|--------------------------------------|-----------------|
| Cost: | |
| At beginning of year | |
| As previously reported | 915,672 |
| Prior year adjustment | (89,791) |
| | 825,881 |
| As restated | 825,881 |
| Deemed disposal of an associate | (16,324) |
| | 809,557 |
| At 31st July, 2004 | 809,557 |
| Recognition as income: | |
| At beginning of year | |
| As previously reported | 16,284 |
| Prior year adjustment | (1,597) |
| | 14,687 |
| As restated | 14,687 |
| Recognised as income during the year | 24,865 |
| Deemed disposal of an associate | (496) |
| | 39,056 |
| As 31st July, 2004 | 39,056 |
| Net book value: | |
| At 31st July, 2004 | 770,501 |
| At 31st July, 2003 (as restated) | 811,194 |

As detailed in note 2 to the financial statements, SSAP 12 (Revised) was adopted for the first time for the current year's financial statements. As a result of the implementation of the revised SSAP 12, the net asset value of the associates acquired in prior years and the negative goodwill arising from the acquisition which had been eliminated against capital reserve at the date of acquisition was changed. Accordingly, negative goodwill previously recognised by the Group is adjusted. The prior year adjustment so arising as at 1st August, 2003 reduced the cost of negative goodwill by HK\$89,791,000 and the accumulated amortisation of negative goodwill by HK\$1,597,000. Negative goodwill recognised as income for the year ended 31st July, 2003 was reduced by HK\$1,232,000. Further details of the prior year adjustments arising from the adoption of the revised SSAP 12 are included in note 26 to the financial statements.

Details of the principal associates are as follows:

| Name of company | Business structure | Place of incorporation/ registration and operations | Class of shares held | Percentage of capital held | Principal activities |
|-------------------------------------|--------------------|--|----------------------|----------------------------|----------------------|
| Lai Fung Holdings Limited | Corporate | Cayman Islands | Ordinary | 45.13 | <i>Note 1</i> |
| Lai Sun Development Company Limited | Corporate | Hong Kong | Ordinary | 42.25 | <i>Note 2</i> |

Notes:

1. Lai Fung's principal activity during the year was investment holding.

The principal activities of Lai Fung and its subsidiaries (collectively the "Lai Fung Group") during the year consisted of property development for sale and property investment for rental purposes.

2. LSD's principal activities during the year consisted of property development for sale, property investment and investment holding.

The principal activities of LSD and its subsidiaries (collectively the "LSD Group") during the year consisted of property development for sale, property investment, investment in and operation of hotels and restaurants and investment holding.

The above table lists, in the opinion of the directors, the principal associates of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

As at 31st July, 2004, 115,000,000 (2003: 115,000,000) ordinary shares of Lai Fung held by the Group were pledged to a bank to secure banking facilities granted to the Company.

Included in the Group's share of the net assets of its associates is its share of net assets of Lai Fung, a company listed on The Stock Exchange of Hong Kong Limited, which, in the opinion of the directors, is material in the context of the Group's financial statements.

A summary of the assets and liabilities of the Lai Fung Group as at 31st July, 2004, its results for the financial year ended 31st July, 2004 and its contingent liabilities as at 31st July, 2004, as extracted from the audited financial statements of Lai Fung for the year ended 31st July, 2004, are set out below:

| | As at 31st July, 2004 <i>HK\$'000</i> |
|--|--|
| Non-current assets | 7,021,162 |
| Current assets | 724,103 |
| Current liabilities | (435,009) |
| Non-current liabilities | (1,819,250) |
| Minority interests | (215,708) |
| | <u>5,275,298</u> |
| | Year ended 31st July, 2004 <i>HK\$'000</i> |
| Turnover | <u>630,204</u> |
| Profit before tax | 240,445 |
| Tax | (63,820) |
| Profit before minority interests | 176,625 |
| Minority interests | (3,851) |
| Net profit from ordinary activities attributable to shareholders | <u>172,774</u> |

Lai Fung Group had the following contingent liabilities not provided for in the financial statements at 31st July, 2004:

- (i) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, Lai Fung Group agreed to guarantee up to 95% of the liabilities of a subsidiary of Lai Fung, for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of Lai Fung Group at the balance sheet date.
- (ii) Under mortgage loan facilities provided by banks to the end-buyers of Eastern Place Phase I, Phase II and Phase III and Regents Park Phase I, Lai Fung Group agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of Lai Fung Group at the balance sheet date.

In addition to the above, the Group's another associate, LSD, a company listed in The Stock Exchange of Hong Kong Limited, announced its proposed settlement of its indebtedness due to the bondholders and eSun Holdings Limited on 2nd July, 2004.

A summary of the assets and liabilities of the LSD Group as at 31st July, 2004, its results for the financial year ended 31st July, 2004, its contingent liabilities as at 31st July, 2004 and the details of its basis of presentation as extracted from its audited financial statements for the year ended 31st July, 2004 are set out below:

| | As at 31st July, 2004 <i>HK\$'000</i> |
|--|--|
| Non-current assets | 6,003,339 |
| Current assets | 766,751 |
| Current liabilities | (6,430,397) |
| Non-current liabilities | (63,271) |
| Minority interests | (392,533) |
| | <u>(116,111)</u> |
| Contingent liabilities | <u>469,088</u> |
| | Year ended 31st July, 2004 <i>HK\$'000</i> |
| Turnover | <u>2,109,513</u> |
| Loss before tax | (59,564) |
| Tax | <u>74,505</u> |
| Profit before minority interests | 14,941 |
| Minority interests | <u>(54,254)</u> |
| Net loss from ordinary activities attributable to shareholders | <u>(39,313)</u> |

Save as disclosed above, LSD had the following contingent liabilities not provided for in its financial statements at 31st July, 2004:

Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between LSD and Lai Fung, LSD has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax ("LAT") payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the "Property Interests"). These tax indemnities given by LSD apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited, independent chartered surveyors, as at 31st October, 1997 (the "Valuation"); and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The indemnity deeds assume that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by LSD do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (the "Listing"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997.

Lai Fung had no LAT payable during the year. No income tax payable by Lai Fung was indemnifiable by LSD during the year.

The auditors' report of LSD for the year ended 31st July, 2004 was disclaimed, as the auditors of LSD were unable either to obtain sufficient reliable information and explanation or to carry out any alternative audit procedures to satisfy themselves as to the value of the LSD Group's share of net assets of the eSun Holdings Limited and its subsidiaries included in the consolidated balance sheet as at 31st July, 2004. The basis of presentation extracted from the financial statements of LSD is summarised as follows:

LSD Group sustained net loss from ordinary activities attributable to shareholders of HK\$39 million (2003: HK\$477 million (as restated)). At the balance sheet date, LSD Group had consolidated net current liabilities of HK\$5,664 million (2003: HK\$7,654 million) and a consolidated deficiency in assets of HK\$116 million (2003: HK\$418 million (as restated)). The improvement in LSD Group's operating results during the year was mainly attributable to the reversal of impairment losses made in prior years against fixed assets, long term unlisted investments and interests in associates, and the write-back of certain profits tax provisions made in prior years. The financial position of LSD Group improved during the year due to the disposal of certain investment properties and subsidiaries which contributed additional funds to LSD Group that were partially used for the reduction of its indebtedness.

At the balance sheet date, LSD Group had outstanding borrowings of approximately HK\$5,965 million, comprising (i) secured bank and other borrowings of approximately HK\$2,292 million; (ii) an accrued loan repayment premium of approximately HK\$32 million under a loan facility; (iii) an outstanding amount of approximately HK\$881 million payable under the exchangeable bonds (principal amount of HK\$622 million and accrued bond redemption premium of HK\$259 million) (the "Exchangeable Bonds"); (iv) an outstanding amount of approximately HK\$1,260 million payable under the convertible bonds (principal amount of HK\$907 million and accrued bond redemption premium of HK\$353 million) (the "Convertible Bonds"); and (v) an amount payable to Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), of approximately HK\$1,500 million (the "Debt").

As previously reported in the financial statements of prior years, the Exchangeable Bonds and the Convertible Bonds (collectively defined as the “Bonds”) were originally due for repayment on 31st December, 2002. During formal meetings with holders of the Bonds (collectively the “Bondholders”) in December 2002, the Bondholders passed resolutions to defer the repayment date of the Bonds to 31st March, 2003. At 31st March, 2003, LSD Group was unable to repay the outstanding Bonds and was not able to reach any other settlement agreement or restructuring plan with the Bondholders. Consequently, LSD Group has been in default on repayment of the Bonds since 31st March, 2003 and remained so as at 31st July, 2004. At 31st July, 2004, LSD Group was also in default on repayment of the Debt to GPEL, which was originally due for repayment on 31st December, 2002.

Since 31st March, 2003, LSD Group had ongoing discussions with all of its financial creditors (including the Bondholders and GPEL) with a view to formulating a consensual debt restructuring proposal and with an objective of refinancing LSD Group’s indebtedness in order to put LSD Group in a better financial position.

Bonds Settlement and eSun Settlement Agreement

During the year, LSD reached an agreement in principle with the informal committee of the Bondholders (the “Informal Committee”) concerning the proposed settlement of the Bonds owed by LSD Group to the Bondholders (the “Bonds Settlement”).

The Bonds Settlement included the settlement of the outstanding principal amount, accrued outstanding interest, redemption premium of the Bonds that amounted to approximately HK\$2,279 million as at 31st July, 2004 and an agreed settlement premium of approximately US\$33 million (equivalent to approximately HK\$257 million) payable to the Bondholders upon the completion of the Bonds Settlement as determined after arm’s length negotiation between the Informal Committee and LSD.

Principal proposed terms of the Bonds Settlement are summarised as follows:

The total amount due to the Bondholders is to be settled by:

- (i) cash repayments of approximately US\$38 million (equivalent to approximately HK\$300 million);
- (ii) the residual principal indebtedness in the amount of approximately HK\$266 million (the “Residual Indebtedness”) and a further principal amount of approximately HK\$70 million (the “Contingent Indebtedness”), which remain due to the Bondholders, would be settled on or before 31st December, 2005. The Residual Indebtedness and the Contingent Indebtedness are non interest-bearing and are to be secured by a package of securities (the “Bonds Security”) as further explained below; and
- (iii) the issuance of approximately 3,800 million settlement shares of LSD at a price of HK\$0.50 each (the “Bonds Settlement Shares”).

It is proposed that Mr. Peter Lam, the Chairman, an executive director and a shareholder of LSD, will grant the Bondholders a non-assignable right to put to him the Bonds Settlement Shares in two tranches:

- (i) 1,000,600,000 Bonds Settlement Shares (the “First Tranche Shares”) at HK\$0.07 per share, exercisable during a period commencing from two months after the completion (the “Completion”) of the Bonds Settlement and the eSun Settlement Agreement (as defined below) and ending by end of the third month after the Completion; and
- (ii) 2,799,440,000 Bonds Settlement Shares (the “Second Tranche Shares”) at HK\$0.03 per share, exercisable during a period commencing on 1st November, 2005 and ending on 30th November, 2005.

To secure the Residual Indebtedness and Contingent Indebtedness due to the Bondholders, LSD, subject to obtaining the necessary consents, permits, approvals, authorisations and waivers, will afford to the Bondholders the Bonds Security as follows:

- (i) first charges over LSD Group's 10% equity interest in Avondale Properties Limited (the "Waterfront Security Interest");
- (ii) a first charge over LSD Group's 26.01% equity interest in Chains Caravelle Hotel Joint Venture Co. Ltd. (the "Caravelle Security Interest");
- (iii) a first charge over LSD Group's 62.625% equity interest in Indochina Beach Hotel Joint Venture (the "Danang Security Interest");
- (iv) a limited recourse right to share in the Ritz-Carlton Security (as defined and detailed below) on a pari passu basis with GPEL; and
- (v) charges over LSD's 42.54% indirect shareholding interest in eSun and its subsidiaries (the "eSun Group").

The Waterfront Security Interest, the Caravelle Security Interest and the Danang Security Interest are collectively known as the Three Planned Sale Interests under the Bonds Settlement, further details of which are included in pages 20 to 21 of LSD's circular dated 15th September, 2004 (the "Circular").

On 28th June, 2004, LSD also entered into a settlement agreement with eSun (the "eSun Settlement Agreement") in connection with the proposed settlement of the Debt. The eSun Settlement Agreement included the settlement of the principal amount of the Debt of approximately HK\$1,500 million and an agreed settlement premium of approximately HK\$1,345 million payable upon the completion of the eSun Settlement Agreement.

The principal terms of the eSun Settlement Agreement are summarised as follows:

The total amount due to eSun is to be settled by:

- (i) cash repayment of HK\$20 million;
- (ii) a 5-year secured interest-bearing term loan in the principal amount of HK\$225 million owed by Furama Hotel Enterprises Limited ("FHEL") to GPEL (the "eSun Loan"). The eSun Loan will bear interest at a rate of 4.5% per annum, payable semi-annually, with the principal amount to be repaid in five years after the completion of the eSun Settlement Agreement, and is secured by LSD Group's interests in The Ritz-Carlton, Hong Kong (the "Ritz-Carlton Security"); and
- (iii) the issuance of 5,200 million settlement shares of LSD at a price of HK\$0.50 each (the "eSun Settlement Shares") upon which the eSun Group will hold 40.8% interest in LSD.

Upon completion of the cash repayments under the Bonds Settlement and the eSun Settlement Agreement, the existing parties to the current second charge over the Ritz-Carlton Security in favour of GPEL and the Bondholders shall amend the existing second charge to adjust their respective security interests existing as at the relevant date thereof to take account of payment made by LSD of HK\$20 million to GPEL and of approximately US\$38 million to the Bondholders.

In relation to the eSun Settlement Shares, eSun or GPEL has covenanted and undertaken to LSD not to dispose of them until the earlier of the purchase by Mr. Peter Lam of such Second Tranche Shares as are put to him, or 31st January, 2006.

Subject to the Completion taking place, the accrued overdue interest on the Debt owed to GPEL will be waived. As at 31st July, 2004, the accrued overdue interest amounted to approximately HK\$119 million.

Further details of the principal terms of the Bonds Settlement and the eSun Settlement Agreement are set out in the Circular.

On 6th October, 2004, the Bondholders held a meeting in accordance with the terms of the Bonds and passed the necessary resolutions to duly approve the terms agreed between the Informal Committee and LSD. Pursuant to the resolutions, the conditions precedent must be fulfilled or otherwise waived on or before 31st January, 2005.

Pursuant to a resolution passed at a special general meeting held by eSun on 13th October, 2004, the independent shareholders of eSun approved the eSun Settlement Agreement.

On the same date, pursuant to a resolution passed at the extraordinary general meeting held by LSD, the Bonds Settlement and the eSun Settlement Agreement (collectively, the "Settlements") were duly approved by the independent shareholders of LSD.

On 18th October, 2004, upon fulfillment of certain specified conditions, cash repayments of HK\$20 million and US\$38 million were made to eSun and the Bondholders, respectively and the amended second charge to adjust the respective security interests in favour of GPEL and the Bondholders as at that date was duly executed as agreed.

The completion of the Settlements is subject to certain other conditions, as detailed in the Circular, being fulfilled, which include, among other things:

- (i) LSD obtaining all relevant consents, permits, approvals, authorisations and waivers necessary for the purposes of putting in place the Three Planned Sale Interests;
- (ii) LSD and eSun obtaining any or all the consents, permits, approvals, authorisations and waivers necessary or appropriate for the entering into and consummation of the transactions contemplated under the Settlements;
- (iii) the Stock Exchange of Hong Kong Limited granting the approval of the listing of, and permission to, deal in the eSun Settlement Shares and the Bond Settlement Shares; and
- (iv) the simultaneous completion of the Bonds Settlement and the eSun Settlement Agreement.

Under the eSun Settlement Agreement, if each of the conditions was not fulfilled or waived by the respective parties, by 1st November, 2004 (the "Longstop Date") or such other date as the parties shall agree from time to time in writing, the Settlements will terminate. On 29th October, 2004, the Longstop Date was agreed to extend to 31st December, 2004.

LSD is currently working closely with its legal advisers to finalise the formal documentations applicable to the Bonds Settlement. In addition, LSD, with the assistance of its legal advisers, continues to work with relevant parties to obtain the necessary consents, permits, approvals, authorisations and waivers with a view to complete the Settlements in the near future.

Bank and other borrowings

As a result of the cross-default triggered by the defaults in the repayment of the Bonds and the Debt, LSD Group was in technical default of bank and other borrowings and accordingly such bank and other borrowings have been classified as current liabilities in the financial statements. These financial creditors have the right to serve notice to LSD Group to declare the bank and other borrowings to be immediately due and repayable. To date, no such notices have been served. As at 31st July, 2004, all outstanding bank and other borrowings were stated as current liabilities. All principal banks had shown their intention to provide continued financial support to LSD Group by continuously granting short-term extension to the loan repayment dates as necessary. LSD Group is having ongoing discussions with these financial creditors with an objective to refinance LSD Group's bank and other borrowings for a longer term (the "Long-term Financing").

If the Settlements are implemented in accordance with the terms described above, the consolidated profit and loss account of LSD Group will be affected by, inter alia, the recognition of the settlement premium provision, the consolidated indebtedness of LSD Group will be significantly reduced and the net asset position of LSD Group will turn from negative to positive.

The directors of LSD believe that LSD Group will be successful in fulfilling the outstanding conditions and all necessary procedures required for the Settlements such that the Settlements could be implemented and that LSD Group will be successful in securing the Long-term Financing. On this basis, the directors of LSD consider that LSD Group will be able to significantly reduce its liabilities and will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of LSD are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis were not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

19. Short Term Investments

| | Group and Company | |
|---|--------------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Listed equity investments in Hong Kong, at market value | 24,250 | 19,637 |

20. Inventories

| | Group | |
|------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials | 10,225 | 6,145 |
| Work in progress | 511 | 133 |
| Finished goods | 64,250 | 85,755 |
| | 74,986 | 92,033 |

The Group's inventories included an amount of HK\$27,467,000 (2003: HK\$39,471,000) which were carried at net realisable value as at the balance sheet date.

21. Trade Receivables

The credit term extended by the Group to trade debtors is normally within 30 to 180 days.

Crocodile Garments Limited (“CGL”) and its subsidiaries (collectively the “CGL Group”), a listed subgroup of the Company, maintains their own sets of credit policies. Other than cash sales made by the CGL Group at its retail outlets, trading terms with wholesale customers are to a large extent on credit, except that payment in advance is normally required from new customers. Invoices are normally payable within 30 days from the date of issuance, except that the terms are extended to 90 days for certain well established customers. Each customer has a designated credit limit.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade receivables, based on invoice due date, as at 31st July, 2004 is as follows:

| | Group | |
|--------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current to 90 days | 24,553 | 171,123 |
| 91 to 180 days | 11,738 | 5,535 |
| 181 to 365 days | 12,815 | 35,577 |
| Over 365 days | 46,392 | 43,646 |
| | 95,498 | 255,881 |
| | 95,498 | 255,881 |

The settlement of certain of the Group’s trade receivables correlates with the payment of trade payables. Certain of these creditors have agreed not to demand repayment until the Group receives settlement from its debtors.

22. Cash and Cash Equivalents

| | Group | | Company | |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash and bank balances | 182,539 | 78,718 | 22,002 | 9,795 |
| Time deposits | — | 20,857 | — | 18,231 |
| | 182,539 | 99,575 | 22,002 | 28,026 |
| | 182,539 | 99,575 | 22,002 | 28,026 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$130,879,000 (2003: HK\$60,077,000). Such cash and bank balances in RMB are not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange such cash and bank balances in RMB for other currencies through banks authorised to conduct foreign exchange business.

23. Trade and Bills Payables

An aged analysis of the trade and bills payables as at 31st July, 2004 is as follows:

| | Group | |
|--------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current to 90 days | 39,044 | 167,706 |
| 91 to 180 days | 18,369 | 4,461 |
| 181 to 365 days | 12,019 | 36,405 |
| Over 365 days | 56,085 | 54,102 |
| | <u>125,517</u> | <u>262,674</u> |

24. Interest-Bearing Bank and Other Borrowings

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Secured bank overdrafts | 2,232 | — | — | — |
| Unsecured bank overdrafts | — | 2,330 | — | — |
| Secured bank loans | 54,250 | 64,250 | 30,000 | 40,000 |
| Trust receipt loans: | | | | |
| Secured | 14,322 | 12,786 | — | — |
| Unsecured | 2,299 | 5,144 | — | — |
| Other borrowings, unsecured | 38,810 | 7 | 38,810 | 7 |
| | <u>111,913</u> | <u>84,517</u> | <u>68,810</u> | <u>40,007</u> |
| Portion due within one year or on demand classified as current liabilities | <u>(73,113)</u> | <u>(84,517)</u> | <u>(30,010)</u> | <u>(40,007)</u> |
| Long term portion | <u>38,800</u> | <u>—</u> | <u>38,800</u> | <u>—</u> |
| Long term portion of bank and other borrowings repayable within a period of more than one year but not exceeding two years | <u>38,800</u> | <u>—</u> | <u>38,800</u> | <u>—</u> |

The secured bank loans are secured by fixed charges on certain properties and floating charges over certain assets held by the Group.

25. Note Payable

The amount represented the outstanding balance of a note payable to Mr. Lim Por Yen (the "Loan Note"), an executive director and a substantial shareholder of the Company (as defined in the Listing Rules). The Loan Note is unsecured, bearing interest at the best lending rate quoted by a designated bank in Hong Kong and is repayable by 30th April, 2005. On 1st November, 2004, the repayment term of the Loan Note was extended to 30th April, 2006, and the Loan Note continued to be classified as a non-current liability.

26. Deferred Tax

The movements in the deferred tax assets during the year are as follows:

| | Group | |
|--|--|-----------------|
| | 2004 | 2003 |
| | Losses available for offset against future taxable profit | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At beginning of year | | |
| As previously reported | — | — |
| Prior year adjustment: | | |
| SSAP 12 — restatement of deferred tax | 10,043 | 10,681 |
| As restated | 10,043 | 10,681 |
| Deferred tax credited/(charged) to the profit and loss account during the year (<i>note 10</i>) | 3,355 | (638) |
| Net deferred tax assets at end of year | <u>13,398</u> | <u>10,043</u> |

At 31st July, 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year as further explained in note 2 to the financial statements. This change in accounting policy has resulted in increases in the Group's deferred tax assets as at 31st July, 2003 and 2002 by HK\$10,043,000 and HK\$10,681,000, respectively, and decreases in the cost of negative goodwill and the accumulated amortisation of negative goodwill of associates as at 1st August, 2003 by HK\$89,791,000 and HK\$1,597,000, respectively.

As a consequence, the consolidated net loss attributable to shareholders for the year ended 31st July, 2003 was increased by HK\$54,044,000, the consolidated accumulated losses at 31st July, 2003 and 2002 were increased by HK\$64,173,000 and HK\$10,129,000, respectively, the minority interests at 31st July, 2003 and 2002 have been increased by HK\$4,526,000 and HK\$4,814,000, respectively, and the consolidated capital reserve as at 31st July, 2003 and 2002 were reduced by HK\$83,781,000, as detailed in the consolidated statement of changes in equity.

27. Share Capital

| | 2004 | 2003 |
|--|------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| <i>Authorised:</i> | | |
| 4,000,000,000 ordinary shares of HK\$0.50 each | <u>2,000,000</u> | <u>2,000,000</u> |
| <i>Issued and fully paid:</i> | | |
| 1,437,709,710 ordinary shares of HK\$0.50 each | <u>718,855</u> | <u>718,855</u> |

28. Reserves**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 32 to 34 of the financial statements.

(b) Company

| | Share premium account HK\$'000 | Fixed asset revaluation reserve HK\$'000 | Investment property revaluation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|---|---|---|--|---------------------------|
| At 1st August, 2002 | 1,119,738 | 19,785 | 5,535 | (1,216,803) | (71,745) |
| Surplus on revaluation of fixed assets on their transfer to investment properties | — | 47,541 | — | — | 47,541 |
| Deficit on revaluation of investment properties | — | — | (1,700) | — | (1,700) |
| Net profit for the year | — | — | — | 73,903 | 73,903 |
| At 31st July, 2003 and at 1st August, 2003 | <u>1,119,738</u> | <u>67,326</u> | <u>3,835</u> | <u>(1,142,900)</u> | <u>47,999</u> |
| Surplus on revaluation of investment properties | — | — | 12,380 | — | 12,380 |
| Released on disposal of an investment property | — | — | (1,018) | — | (1,018) |
| Transfer to accumulated losses upon disposal of a fixed asset | — | (2,291) | — | 2,291 | — |
| Net profit for the year | — | — | — | 45,902 | 45,902 |
| At 31st July, 2004 | <u>1,119,738</u> | <u>65,035</u> | <u>15,197</u> | <u>(1,094,707)</u> | <u>105,263</u> |

29. Contingent Liabilities

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

30. Operating Lease Arrangements**(a) As lessor**

The Group and the Company lease their investment properties (note 14 to the financial statements) and certain land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with the tenants falling due as follows:

| | Group | | Company | |
|---|---------------|---------------|---------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 13,297 | 13,533 | 6,359 | 3,569 |
| In the second to fifth years, inclusive | 6,088 | 10,448 | 4,904 | 2,831 |
| | <u>19,385</u> | <u>23,981</u> | <u>11,263</u> | <u>6,400</u> |

(b) *As lessee*

The Group leases its office premises, certain warehouses and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---------------|---------------|------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | 49,873 | 47,240 | 120 | 57 |
| In the second to fifth years, inclusive | 39,548 | 32,462 | 50 | — |
| | <u>89,421</u> | <u>79,702</u> | <u>170</u> | <u>57</u> |

31. **Commitments**

In addition to the operating lease commitments detailed in note 30(b) above, the Group and the Company had the following commitments at the balance sheet date:

| | Group | | Company | |
|---|----------------|----------------|----------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Capital commitments in respect of development costs attributable to properties under development: | | | | |
| Contracted, but not provided for | 163,222 | 156,384 | — | — |
| Authorised, but not contracted for | 94,470 | 94,470 | — | — |
| | <u>257,692</u> | <u>250,854</u> | <u>—</u> | <u>—</u> |

32. Post Balance Sheet Event

On 16th September, 2004, the Company made an announcement pursuant to Rule 13.09 of the Listing Rules in respect of the issue of a circular on 15th September, 2004 by LSD, an associate of the Group, to its shareholders regarding its proposed settlement of indebtedness of the LSD Group due to the bondholders and eSun Holdings Limited by, inter-alia, the issue of new shares of LSD (the “Debt Restructuring Plan”). If completion of the Debt Restructuring Plan occurs, LSG’s interest in LSD will be diluted from 42.25% to 12.42% which constitutes a deemed disposal by the Group of its interest in LSD and will result in significant financial effects to be recorded by the Group. The Debt Restructuring Plan is still pending completion subject to fulfillment of certain conditions precedent as at the date of the approval of the financial statements.

33. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and comparative amounts have been restated to conform with the current year’s presentation.

34. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 12th November, 2004.

INDEBTEDNESS

As at 31st January, 2005, being the latest practicable date for the purpose of this indebtedness statement, the LSG Group had outstanding indebtedness of approximately HK\$374.5 million, comprising secured bank loans of approximately HK\$64.3 million which were secured against certain investment properties and shares of each of LFH and CGL as detailed in the paragraph below, secured trust receipt loans of approximately HK\$6.6 million which were secured by certain investment properties, unsecured trust receipts loans of approximately HK\$2.7 million, secured bank overdrafts of approximately HK\$2.9 million which were secured by a corporate guarantee executed by CGL, an unsecured note payable of HK\$195 million and unsecured other loans of HK\$103 million.

As at 31st January, 2005, certain investment properties with unaudited carrying values in an aggregate amount of approximately HK\$264.2 million, which were based on the carrying values as stated in the audited consolidated financial statements of the LSG Group for the year ended 31st July 2004, were pledged to banks to secured banking facilities granted to the LSG Group. In additions, 115,000,000 ordinary shares of Lai Fung Holdings Limited and 96,000,000 ordinary shares of CGL were pledged to a bank to secure a banking facility granted to the LSG Group.

Save as aforesaid and apart from intra-group liabilities, the LSG Group did not, as at 31st January, 2005, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the issuer or by third parties) or unsecured, (ii) other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptable credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured, (iii) mortgages or charges or (iv) guarantees or other contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that, the LSG Group has sufficient working capital for its present requirements (i.e. for at least 12 months from the date of this circular) after taking into account the internal resources of, and banking and other facilities available to, the LSG Group.

FINANCIAL AND TRADING PROSPECTS AND MATERIAL CHANGES

The LSG Group's interest in LSD had been diluted from approximately 42.25% to approximately 12.42% on completion of the settlement of the outstanding indebtedness of LSD on 7th December, 2004. The financial and trading prospects of the LSG Group will be influenced, therefore, to a more significant extent by the results of CGL and LFH, in view of the substantial shareholding interests of the LSG Group in the two companies.

The Directors are optimistic that the number of in-bound tourists will further increase in the short-term and this should be beneficial to the local retail market. The growth in consumer spending and improvement in local property prices will help maintain the momentum of the current economic upswing in Hong Kong. This will provide favourable trading conditions for CGL Group's operations.

LFH will maintain its focus on development of and investment in commercial and residential projects in Shanghai and Guangzhou. With the anticipated increase in the number of foreign corporations establishing a presence in the Mainland, demand for quality commercial and residential properties by these foreign companies is expected to remain at a high level.

Save as disclosed above in this circular, the Directors are not aware of any material change in the financial and trading position of the LSG Group since 31st July, 2004, being the date up to which the latest published audited consolidated accounts of the Company were made.

The following is the text of a letter together with the valuation certificate received from Savills (Hong Kong) Limited (formerly known as FPD Savills (Hong Kong) Limited), an independent professional valuer, prepared for the purpose of incorporation into this circular, in connection with its valuation as at 29th December, 2004 on Units G-9, G-9A and G-10 on Ground Floor, Utility Room 213A on Second Floor and Utility Room 413A on Fourth Floor of Hankow Centre, Nos. 5-15 Hankow Road, Nos. 41-45, 47, 49-51 Peking Road, Nos. 4, 4A, 4B Ashley Road and Nos. 1, 1A-E Middle Road, Tsim Sha Tsui, Kowloon .



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The Directors
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11/F Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon

The Directors
Lai Sun Garment (International) Limited
11/F Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon

7th March, 2005

Dear Sirs,

Re: UNITS G-9, G-9A AND G-10 ON GROUND FLOOR, UTILITY ROOM 213A ON SECOND FLOOR AND UTILITY ROOM 413A ON FOURTH FLOOR OF HANKOW CENTRE, NOS. 5-15 HANKOW ROAD, NOS. 41-45, 47, 49-51 PEKING ROAD, NOS. 4, 4A, 4B ASHLEY ROAD AND NOS. 1, 1A-E MIDDLE ROAD, TSIM SHA TSUI, KOWLOON (THE "PROPERTY")

We refer to your instructions for us to conduct a valuation on the open market value of the Property as at 29th December, 2004 ("Valuation Date").

We confirm that we have inspected the property, caused searches to be made at the Land Registry, made relevant enquiries and investigations as we consider necessary for the purposes of providing you with our opinion of value of the Property as at the Valuation Date.

This letter which forms part of our valuation certificate sets out our basis of valuation, assumptions, title investigation and limiting conditions.

Our valuation is our opinion of the open market value of the property concerned which we would define as intended to mean “the best price at which the sale of an interest in property would be expected to have been completed unconditionally for cash consideration on the Valuation Date, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation is prepared in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5 of Listing Rules published by the Stock Exchange of Hong Kong.

The Property is held for investment and we have valued the Property on an open market basis and subject to existing tenancy. In our valuation, we have assumed that the Property is free from any encumbrances.

Our valuation have been made on the assumption that the owner sells the property interests on the open market without the effect of any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property interests.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless non-conformity has been stated, defined and considered in valuation certificate. Moreover, it is assumed that the utilisation of the land and improvements is within the boundary of the site held by the owner or permitted to be occupied by the owner. In addition, no encroachment or trespass exists, unless noted in the valuation certificate.

All documents disclosed in certificate, if any, is for reference only and no responsibility is assumed for any legal matter concerning the legal title to the property interests set out in certificate.

We have carried out title searches in the relevant Land Registry in Hong Kong but have not verified the original title documents or ascertained the existence of any lease amendments which may not appear on the copies handed to us. All documents and leases have been used as reference only and all dimensions, measurements and areas included in the valuation certificate is based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been taken.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, site and floor areas and all other relevant matters. We have had no reason to doubt the truth and accuracy of information provided to us by the Company. We have also been advised by the Company that no material facts have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have not verified and make no representation that the Property, including any plant and equipment therein, is millennium compliant, or that the value of the Property is not adversely affected in any way by any part of them not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

We enclose herewith our valuation certificate.

Yours faithfully,
For and behalf of
Savills (Hong Kong) Limited
Gilbert C H Chan
BSc(Hons), MRICS, MHKIS, RPS(GP)
Associate Director
Valuation and Consultancy

Note: Mr Gilbert C H Chan is a Registered Professional Surveyor with over 12 years' valuation experience on landed properties in Hong Kong.

VALUATION CERTIFICATE

| Property | Description and Tenure | Particulars of Occupancy | Open Market Value as at 29th December, 2004 |
|---|--|--|---|
| Units G-9, G-9A and G-10 on Ground Floor and Utility Room 213A on 2nd Floor and Utility Room 413A on 4th Floor of Hankow Centre, Nos. 5-15 Hankow Road, Nos. 41-45, 47, 49-51 Peking Road, Nos. 4, 4A, 4B Ashley Road and Nos. 1, 1A-E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong | <p>The Property comprises 3 shop units on the ground floor and two utility rooms in a composite building completed in 1968.</p> <p>The total saleable area of the ground floor shops is approximately 1,802 sq.ft. (167.41 sq.m.) plus utility rooms with a total area of approximately 501 sq.ft. (46.54 sq.m.).</p> <p>The lot is held from the Government under Conditions of Regrant No. 7135 for a term of 150 years commencing on 24th June, 1895.</p> | As at the valuation date, the Property was tenanted for a term of 2 years from 1st March, 2003 with an option to renew for a further term of 2 years at a current monthly rent of \$391,460 (exclusive of rates and management fee). | HK\$120,000,000 |
| 10,916/720,000 parts or shares of and in Kowloon Inland Lot No. 8219 and the extension thereto | The Government Rent for the whole Lot and the extension is HK\$3,508 per annum. | | |

Notes:

1. As at the Valuation Date, the registered owner of the Property is Gold Nation Development Limited vide Memorial No. 5929995 dated 19th January, 1994.
2. As at the Valuation Date, the Property is subject to the following encumbrances:
 - (i) Assignment of Rental in favour of Liu Chong Hing Bank Limited vide Memorial No. 7986513 dated 24th December, 1999;
 - (ii) Mortgage in favour of Liu Chong Hing Bank Limited for all money vide Memorial No. 7986514 dated 24th December, 1999;
 - (iii) Tenancy Agreement for 2 years from 1st March, 2003 to 28th February, 2005 in favour of J.V. Fitness Limited (*Re : The rent is \$391,460 per month with option to renew 2 Years.*) vide Memorial No. 9144896 dated 24th February, 2004;
 - (iv) Order No. DBZ/U17/0007/03 under S.26 of the Buildings Ordinance vide Memorial No. 9228914 dated 31st March, 2004 (*By the Building Authority (Re: For exterior of the Building)*); and
 - (v) Order No. DRZ/U17/0008/03 under S.28(3) of the Buildings Ordinance vide Memorial No. 9370573 dated 21st September, 2004 (*By the Building Authority re For Common Drains Only*).
3. The Property falls within an area zoned "Commercial" on Tsim Sha Tsui (KPA1) Outline Zoning Plan.
4. As at the Valuation Date, the Property was subject to an existing tenancy expiring on 28th February, 2005. This tenancy expired on 28th February, 2005 and has not been renewed.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, 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 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. The Company (or “LSG”)

| Name of Director | Long positions in the Shares | | | Capacity | Total | Percentage |
|------------------------|------------------------------|------------------|-----------------------|---------------------|-------------|------------|
| | Personal Interests | Family Interests | Corporate Interests | | | |
| Lam Kin Ngok, Peter | 110,794,951 | Nil | 484,991,750 (Note) | Beneficial owner | 595,786,701 | 41.44% |
| Lam Kin Ming | 4,451,790 | Nil | Nil | Beneficial owner | 4,451,790 | 0.31% |
| U Po Chu | 3,669,000 | Nil | 484,991,750 (Note) | Beneficial owner | 488,660,750 | 33.99% |
| Chiu Wai | 199,660 | Nil | Nil | Beneficial owner | 199,600 | 0.01% |

Note: Madam U Po Chu and Mr. Lam Kin Ngok, Peter were deemed to be interested in 484,991,750 shares each by virtue of their respective interest of 50% in the issued share capital of Wisdoman which directly owned 484,991,750 shares in LSG.

2. Associated corporations

(a) *Lai Fung Holdings Limited (“LFH”)*

| Name of Director | Long positions in the shares of LFH | | | Capacity | Total | Percentage |
|---------------------|-------------------------------------|------------------|----------------------------------|------------------|---------------|------------|
| | Personal Interests | Family Interests | Corporate Interests | | | |
| U Po Chu | Nil | Nil | 2,650,688,037 <i>(Note 1)</i> | Beneficial owner | 2,650,688,037 | 45.13% |
| Lam Kin Ngok, Peter | Nil | Nil | 2,650,688,037 <i>(Note 1)</i> | Beneficial owner | 2,650,688,037 | 45.13% |

Notes:

1. LSG and its wholly-owned subsidiary beneficially owned 2,650,688,037 shares in Lai Fung. Madam U Po Chu and Mr. Lam Kin Ngok, Peter were deemed to be interested in 2,650,688,037 shares each in LFH by virtue of their respective interest of 50% in the issued share capital of Wisdoman which directly owned approximately 33.73% interest in the issued share capital of LSG.
2. Madam U Po Chu is the spouse of Mr. Lim Por Yen (deceased), who held a personal interest in 115,156,000 shares in LFH.

(b) *Crocodile Garments Limited (“CGL”)*

| Name of Director | Long positions in the shares of CGL | | | Capacity | Total | Percentage |
|---------------------|-------------------------------------|------------------|------------------------------|------------------|-------------|------------|
| | Personal Interests | Family Interests | Corporate Interests | | | |
| U Po Chu | Nil | Nil | 338,982,809 <i>(Note)</i> | Beneficial owner | 338,982,809 | 54.93% |
| Lam Kin Ngok, Peter | Nil | Nil | 338,982,809 <i>(Note)</i> | Beneficial owner | 338,982,809 | 54.93% |

Note: LSG and its wholly-owned subsidiary beneficially owned 338,982,809 shares in CGL. Madam U Po Chu and Mr. Lam Kin Ngok, Peter were deemed to be interested in 338,982,809 shares each in CGL by virtue of their respective interest of 50% in the issued share capital of Wisdoman which directly owned approximately 33.73% interest in the issued share capital of LSG. Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of LSG and held an interest of approximately 42% in aggregate in the issued share capital of LSG.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and 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.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

So far as is known to the Directors, as at the Latest Practicable Date, the following persons, some of whom are Directors or chief executives of the Company, had an interest in the following long positions in the Shares and underlying Shares of equity derivatives of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the LSG Group:

| Name | Long positions in the Shares | | | Percentage |
|---|------------------------------|------------------------|------------------|--------------------|
| | Capacity | Nature (Note 1) | Number of Shares | |
| Lam Kin Ngok, Peter | Beneficial owner | Personal and corporate | 595,786,701 | 41.44% (Note 2) |
| U Po Chu | Beneficial owner | Personal and corporate | 488,660,750 | 33.99% (Note 2) |
| Wisdoman Limited | Beneficial owner | Corporate | 484,991,750 | 33.73% |
| Far East Consortium International Limited | Beneficial owner | Corporate | 108,697,000 | 7.56% (Note 3) |

Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest respectively.
2. Madam U Po Chu and Mr. Lam Kin Ngok, Peter were deemed to be interested in 484,991,750 shares each by virtue of their respective interest of 50% in the issued share capital in Wisdoman which directly owned 484,991,750 shares in LSG.
3. Persons falling into the category of "Other Persons" in Practice Note 5 to the Rules Governing the Listing of Securities on the Stock Exchange.

Save as disclosed in this circular, the Directors are not aware of any person as at the Latest Practicable Date who had an interest or short position in the Shares or equity derivatives which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the LSG Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with the Company or any subsidiary of the Company which does not expire or is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

5. DIRECTORS' INTERESTS IN ASSETS

Save as disclosed below, none of the Directors have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the LSG Group or are proposed to be acquired or disposed of by or leased to any member of the LSG Group since 31st July, 2004, being the date up to which the latest published audited consolidated accounts of the LSG Group were made:

- (1) CGL as the tenant entered into a tenancy agreement dated 29th June, 2004 with Lai Sun Textiles Company Limited as the landlord (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, New Territories, (covering a gross floor area of approximately of 60,400 square feet) (the "**Building**") for a fixed term of two years commencing from 1st July, 2004 at a monthly rental of HK\$169,120 per month (inclusive of management fee, rates and government rent).
- (2) CGL also entered into a license agreement dated 29th June, 2004 with the Landlord for car parking spaces in the Building for a period of two years at a license fee of HK\$7,500 per month.

The Directors who are interested in the issued share capital of Lai Sun Textiles Company Limited and their respective shareholdings are as follows: Madam U Po Chu (6.67%), Mr. Lam Kin Ngok, Peter (6.67%) and Mr. Lam Kin Ming (1.33%).

6. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors is materially interested in any contract or arrangement entered into by any member of the LSG Group subsisting at the date of this circular which is significant in relation to the business of the LSG Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practical Date, the following directors of LSG are considered to have interests in businesses which compete or is likely to compete, either directly or indirectly, with the businesses of the LSG Group pursuant to the Listing Rules:—

Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Lam Kin Hong, Matthew hold directorships and/or interests (either as beneficiaries or nominees) respectively in certain private companies (the “Private Companies”) which are engaged in property investment and development in Kwai Chung (industrial use), Tsuen Wan (industrial use) and Sha Tin (agricultural land), Mongkok (commercial use and offices), Sham Shui Po (commercial use and offices), To Kwa Wan (use as carpark), and Cheung Sha Wan (industrial workshop use) in Kowloon, Hong Kong. The total gross floor area in the investment property portfolio held by the aforesaid private companies amounts to approximately 750,000 sq.ft., with industrial use amounting to approximately 69%, commercial/office use amounting to approximately 28% and use for carparks amounting to approximately 3%.

The investment properties of the LSG Group are situated in Kwun Tong (industrial/commercial use), Tsimshatsui (commercial) and Cheung Sha Wan (industrial) in Kowloon, and in North Point (commercial) in Hong Kong. The LSG Group also holds a property under development in Shanghai. In view of the different location and different uses of the properties owned by the Private Companies and those of the LSG Group, the Directors do not consider the personal interests held by the abovementioned Directors of LSG to compete in practice with those of the LSG Group.

Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Shiu Kai Wah hold directorships and/or interests (either as beneficiaries or nominees) in certain private companies which are engaged in related businesses of the garment industry. The Directors consider that the interests of the abovementioned Directors as disclosed above do not compete with the principal activities of the LSG Group, being garment manufacturing, trading and sale.

As the above Directors do not control a majority vote of the Board which comprises eleven directors, none of the above Directors of the Company can control the Board. The LSG Group is, therefore, capable of carrying on its businesses independent of, and at arm's length from, the businesses of the aforesaid private companies.

The Directors confirm that none of the above competing businesses will be injected into the LSG Group.

Save as disclosed above, and as at the Latest Practicable Date, none of the Directors or their respective associates was interested in, apart from the LSG Group's businesses, any business which competes or is likely to compete, either directly or indirectly, with businesses of the LSG Group.

8. MATERIAL CONTRACTS

Save for the Agreement, the Company or its subsidiaries has not entered into any contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this circular which are or may be material.

9. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

10. QUALIFICATION OF EXPERT AND EXPERT'S INTERESTS

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

| Name | Qualification |
|---|-----------------------------------|
| Savills (Hong Kong) Limited (formerly known as FPD Savills (Hong Kong) Limited) | Professional surveyors and valuer |

Savills (Hong Kong) Limited has confirmed that as at the Latest Practicable Date it does not have shareholding interest in any member of the LSG Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the LSG Group.

Savills (Hong Kong) Limited further confirmed that as at the Latest Practicable Date it does not have any interest, direct or indirect, in any assets which have been, since 31st July, 2004 (being the date to which the latest published audited consolidated accounts of the LSG Group were made up), acquired or disposed of by or leased to any member of the LSG Group, or are proposed to be acquired or disposed of by or leased to any member of the LSG Group.

11. EXPERT'S CONSENTS

Savills (Hong Kong) Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion or letter and/or reference to its name, opinion or letter in the form and context in which it appears.

The letter and valuation certificate given by Savills (Hong Kong) Limited were made on 7th March, 2005 for incorporation in this circular.

12. GENERAL

- (a) The secretary of the Company is Mr. Yeung Kam Hoi, who is an Associate Member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries and a member of Hong Kong Securities Institute.
- (b) The qualified accountant of the Company is Mr. Tse Kim Lun, who is a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants.
- (c) The registered office of the Company is situated at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.
- (d) The Registrars and transfer office of the Company are Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong during normal business hours on any business day from the date of this circular until the day of the EGM:—

- (a) this circular;
- (b) the memorandum and articles of association of the Company;
- (c) the audited consolidated accounts of the Company for each of the two financial years ended 31st July, 2003 and 2004;
- (d) the letter, summary of values and valuation certificate prepared by Savills (Hong Kong) Limited, the texts of which are set out in Appendix II of this circular;
- (e) the written consent from Savills (Hong Kong) Limited referred to in paragraph 11 in this Appendix III; and
- (f) the Agreement.

No circular has been issued by the Company pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules since 31st July, 2004, the date of the latest published audited final accounts.

NOTICE OF EXTRAORDINARY GENERAL MEETING



L A I S U N G A R M E N T

Lai Sun Garment (International) Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 191)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Lai Sun Garment (International) Limited (the “**Company**”) will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 31st March, 2005 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an Ordinary Resolution:—

“**THAT:**—

- (a) the disposal of the property pursuant to the tender made by Success Ever Limited, a company incorporated in Hong Kong in respect of Units G-9, G-9A and G-10 on the Ground Floor, Utility Room 213A on the 2nd Floor and Utility Room 413A on the 4th Floor of Hankow Centre, Nos. 5-15 Hankow Road, Nos. 41-45, 47, 49-51 Peking Road, Nos. 4, 4A, 4B Ashley Road and Nos. 1, 1A-E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong for the consideration of HK\$145,000,000 (the “**Disposal**”), and the transactions contemplated thereunder as described in the circular dated 7th March, 2005 and despatched to shareholders of the Company, a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification, be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to execute (under hand or under seal), perfect and deliver all such documents and do all such acts and things as may be necessary or desirable to implement or give effect to the Disposal and the transactions contemplated thereunder (including, without limitation, exercising or enforcing any right thereunder) and to make and agree such variations of a non-material nature to the terms of the Disposal as they may consider to be desirable and in the interests of the Company.”

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 7th March, 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered Office:—

11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

Notes:—

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any ordinary share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such ordinary share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such ordinary share shall alone be entitled to vote in respect thereof.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting should they so wish.