

# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares have been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong and the Securities and Futures Commission take no responsibility for the contents of any of these documents.

Dealings in the securities of **Lai Sun Garment (International) Limited** and the Rights Shares (as defined herein) in their nil-paid form and fully-paid form may be settled through Central Clearing and Settlement System ("CCASS") and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

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

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as well as compliance with the stock admission requirements of Hong Kong Securities Clearing Company Limited ("HKSCC"), the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, the provisional allotment letter and the form of application for excess Rights Shares, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of these documents.



LAI SUN GARMENT  
Lai Sun Garment (International) Limited  
(Incorporated in Hong Kong with limited liability)

(Stock Code: 191)

**RIGHTS ISSUE OF 179,713,713 RIGHTS SHARES  
IN THE PROPORTION OF  
ONE RIGHTS SHARE FOR EVERY EIGHT SHARES  
HELD ON THE RECORD DATE  
AT HK\$0.50 PER RIGHTS SHARE  
PAYABLE IN FULL ON ACCEPTANCE**

Underwriter



The Shares (as defined herein) have been dealt in on an ex-rights basis since 31 May 2005.

The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on 29 June 2005.

The procedure for acceptance or transfer is set out in the "Letter From the Board" on pages 15 and 16 of this prospectus.

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter the right to terminate the Underwriting Agreement if any events (including force majeure) happens at any time prior to 5:00 p.m. on 4 July 2005. For this purpose, force majeure events include one or more of the following events or matters shall develop, occur, arise or exist or come into effect: (1) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, the PRC (as defined herein) or elsewhere; or (2) any change of an exceptional nature in local, national or international, financial, political, industrial or economic conditions; or (3) any change of an exceptional nature in local, national or international financial markets including but not limited to equity securities or currency markets; or (4) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; which event or events is or are in the reasonable opinion of the Underwriter likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or the Group (as defined herein) as a whole; or likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up. In the event that the Underwriter exercises such right to terminate the Underwriting Agreement, the proposed Rights Issue will not proceed. For further details, please refer to the section headed "Termination of the Underwriting Agreement under Force Majeure" as set out on page 4 of this prospectus. Existing Shares have been dealt in on an ex-rights basis from Tuesday, 31 May 2005. Dealings in the Rights Shares in nil-paid form will take place from Friday, 17 June 2005 to Friday, 24 June 2005 (both days inclusive). Any person dealing in the Shares and/or nil-paid Rights Shares during such periods will bear the risk that the proposed Rights Issue may not become unconditional and may not proceed. Any person who is in any doubt about his position is recommended to consult his professional adviser.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

|                              |   |
|------------------------------|---|
| “Announcement”               | the press announcement dated 18 May 2005 released by the Company in connection with the Rights Issue  |
| “Board”                      | board of Directors  |
| “Business Day”               | a day (excluding Saturday) on which commercial banks in Hong Kong are generally open for and carrying on banking business in Hong Kong  |
| “CCASS”                      | the Central Clearing and Settlement System established and operated by HKSCC  |
| “Company”                    | Lai Sun Garment (International) Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange   |
| “Conditions”                 | the conditions of the Rights Issue, as set out at page 14 of this prospectus  |
| “Directors”                  | The directors of the Company from time to time  |
| “Excess Application Form(s)” | application form(s) for excess Rights Shares  |
| “Final Acceptance Date”      | 29 June 2005, being the last date for acceptance and payment in respect of provisional allotments under the Rights Issue, provided that if on such date a Storm Warning is issued in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. then references to the “Final Acceptance Date” shall mean the first Business Day thereafter on which no Storm Warning remains issued at any time between 9:00 a.m. and 5:00 p.m. |
| “Group”                      | the Company and its subsidiaries  |
| “Government”                 | the Government of Hong Kong   |
| “HK\$”                       | Hong Kong dollars   |
| “HKSCC”                      | Hong Kong Securities Clearing Company Limited   |
| “Hong Kong”                  | The Hong Kong Special Administrative Region of the People’s Republic of China   |
| “Latest Practicable Date”    | 10 June 2005, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information herein  |
| “Latest Termination Time”    | 5:00 p.m. on 4 July 2005  |
| “Listing Rules”              | the Rules Governing the Listing of Securities on the Stock Exchange   |

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## DEFINITIONS

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|                                   |   |
|-----------------------------------|---|
| “Macau”                           | Macau Special Administrative Region   |
| “Major Shareholders”              | Wisdoman Limited (being owned as to 50% by each of Lam Kin Ngok, Peter and U Po Chu), Lam Kin Ngok, Peter, U Po Chu and Lam Kin Ming  |
| “Non-Qualifying Shareholder(s)”   | the Shareholder(s) whose name(s) appear(s) on the register of members of the Company as at the close of business on the Record Date but whose registered address(es) as shown on the register of members of the Company is/are located in the Restricted Jurisdictions  |
| “Ordinary Shares”                 | ordinary shares of HK\$0.50 each in the capital of the Company  |
| “PRC”                             | the People’s Republic of China, and for the purpose of this prospectus, excluding Taiwan, Hong Kong and Macau   |
| “Prospectus Documents”            | this prospectus, the Provisional Allotment Letters and Excess Application Forms   |
| “Provisional Allotment Letter(s)” | provisional allotment letter(s) for the Rights Shares   |
| “Qualifying Shareholder(s)”       | the Shareholder(s), other than the Non-Qualifying Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date  |
| “Record Date”                     | 15 June 2005, being the date by reference to which entitlements to new Shares under the Rights Issue are determined   |
| “Restricted Jurisdictions”        | Malaysia, Canada, the United States of America, Australia and Ireland   |
| “Rights Issue”                    | the proposed issue by the Company of 179,713,713 Rights Shares at HK\$0.50 per Rights Share by way of rights on the basis of one Rights Share for every eight Shares held as at the close of business on the Record Date and otherwise on the terms and subject to the conditions set out in the Underwriting Agreement |
| “Rights Shares”                   | 179,713,713 new Shares to be issued under the Rights Issue  |
| “RMB”                             | Renminbi, the lawful currency of the PRC  |
| “SFO”                             | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “Shareholder(s)”                  | holder(s) of Shares(s)  |
| “Share(s)”                        | share(s) of HK\$0.50 each in the share capital of the Company   |
| “Share Registrar”                 | Tengis Limited, being the share registrar of the Company, the address of which is Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong   |

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## DEFINITIONS

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|                          |   |
|--------------------------|---|
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited   |
| “Storm Warning”          | either a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal                                      |
| “Subscription Price”     | HK\$0.50 per Rights Share payable upon acceptance   |
| “Underwriter”            | DBS Asia Capital Limited  |
| “Underwriting Agreement” | the underwriting agreement dated 13 May 2005 and entered into between the Company and the Underwriter in relation to the Rights Issue |

## **TERMINATION OF THE UNDERWRITING AGREEMENT UNDER FORCE MAJEURE**

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It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate its obligations under the Underwriting Agreement if certain events (including force majeure) happen at any time prior to 5:00 p.m. on 4 July 2005.

For this purpose, force majeure events include one or more of the following events or matters shall develop, occur, arise or exist or come into effect:

- (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, the PRC or elsewhere; or
- (ii) any change of an exceptional nature in local, national or international, financial, political, industrial or economic conditions; or
- (iii) any change of an exceptional nature in local, national or international financial markets including but not limited to equity securities or currency markets; or
- (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;

which event or events is or are in the reasonable opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or any member of the Group as a whole; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up.

Please also refer to the paragraph headed “Termination of the Underwriting Agreement” in the Letter from the Board in this prospectus for details of other events or matters which will entitle the Underwriter to terminate the Underwriting Agreement.

In the event that the Underwriter exercises such right to terminate the Underwriting Agreement, the Rights Issue will not proceed.

Existing Shares have been dealt in on an ex-rights basis from Tuesday, 31 May 2005. Dealings in the Rights Shares in nil-paid form will take place from Friday, 17 June 2005 to Friday, 24 June 2005 (both days inclusive).

Any person dealing in the Shares and/or nil-paid Rights Shares during such period will bear the risk that the proposed Rights Issue may not become unconditional and may not proceed.

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## EXPECTED TIMETABLE

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2005

|  |   |
|--|---|
| Closure of register of members (both days inclusive) . . . . .   | (Thursday) 2 June<br>to (Wednesday) 15 June |
| Record Date . . . . .  | (Wednesday) 15 June                         |
| Register of members of the Company reopens . . . . .   | (Thursday) 16 June                          |
| First day of dealings in nil-paid Rights Shares . . . . .  | 9:30 a.m. (Friday) 17 June                  |
| Latest time for splitting nil-paid Rights Shares . . . . .   | 4:30 p.m. (Tuesday) 21 June                 |
| Last day of dealings in nil-paid Rights Shares . . . . .   | 4:00 p.m. (Friday) 24 June                  |
| Latest time for acceptance of and payment for Rights Shares<br>and application for excess Rights Shares . . . . .            | 4:00 p.m. (Wednesday) 29 June               |
| Latest time for the Rights Issue to become unconditional . . . . .   | 5:00 p.m. (Monday) 4 July                   |
| Publication of announcement of results of the Rights Issue and<br>excess application . . . . .                               | (Wednesday) 6 July                          |
| Despatch of refund cheques in respect of wholly<br>or partially unsuccessful applications for excess Rights Shares . . . . . | (Thursday) 7 July                           |
| Despatch of certificates for fully-paid Rights Shares . . . . .  | (Thursday) 7 July                           |
| Dealings in fully-paid Rights Shares to commence on . . . . .  | (Monday) 11 July                            |

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## SUMMARY OF THE RIGHTS ISSUE

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The following information is derived from, and should be read in conjunction with, the full text of this prospectus.

|   |  |
|---|--|
| Number of Rights Shares to be issued              | 179,713,713 new Shares   |
| Amount to be raised by the Right Issue            | Approximately HK\$89.9 million, before expenses of approximately HK\$4.1 million which includes underwriting commission, legal and professional and other related expenses in connection with the Rights Issue   |
| Basis of the Rights Issue                         | One Rights Share for every eight existing Shares held by the Qualifying Shareholders at the close of business on the Record Date   |
| Subscription price and latest time for Acceptance | HK\$0.50 per Rights Share, payable in full on acceptance by 4:00 p.m. on 29 June 2005  |
| Rights of excess application                      | Qualifying Shareholders have the right to apply for Rights Share in excess of their provisional allotments   |
| Status of Rights Shares                           | When fully-paid, issued and allotted, the Rights Share will rank pari passu in all respects with the Shares then in issue and holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of issue and allotment of the fully-paid Rights Shares  |
| Undertaking of the Major Shareholders             | The Major Shareholders have irrevocably undertaken to the Company and the Underwriter to take up their respective entitlements under the Rights Issue in full  |
| Non-Qualifying Shareholders                       | Non-Qualifying Shareholders are not entitled to take part in the Rights Issue and no provisional allotment will be made to Non-Qualifying Shareholders. The Company will make arrangements for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in nil-paid form as soon as practicable after dealing in the nil-paid Rights Shares commences, if a premium, net of expenses, can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to Non-Qualifying Shareholders in Hong Kong dollars pro rata to their respective shareholding as soon as practicable. The Company will retain individual amounts of less than HK\$100. Any such unsold Rights Shares will be available for excess application by Qualifying Shareholders. |



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

*Executive Directors:*

Lam Kin Ming (*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*

15 June 2005

*To Qualifying Shareholders*

*Non-Qualifying Shareholders (for information only)*

Dear Sir or Madam,

**RIGHTS ISSUE OF 179,713,713 RIGHTS SHARES  
IN THE PROPORTION OF  
ONE RIGHTS SHARE FOR EVERY EIGHT SHARES  
HELD ON THE RECORD DATE  
AT HK\$0.50 PER RIGHTS SHARE  
PAYABLE IN FULL ON ACCEPTANCE**

**1. INTRODUCTION**

On 18 May 2005, the Board announced that the Company proposed, subject to fulfillment of the Conditions, to raise approximately HK\$89.9 million, before expenses, by issuing 179,713,713 new Shares by way of rights issue at a price of HK\$0.50 per Rights Share on the basis of one Rights Share for every eight Shares held on the Record Date.

The purpose of this prospectus is to provide you with details of the Rights Issue as well as financial and other information in respect of the Group.

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## LETTER FROM THE BOARD

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### 2. RIGHTS ISSUE

#### Issue Statistics

|   |  |
|---|--|
| Basis of Rights Issue                                       | : one Rights Share for every eight Shares held on the Record Date  |
| Number of Shares in issue on the Record Date                | : 1,437,709,710 Shares   |
| Number of Rights Shares to be issued under the Rights Issue | : 179,713,713 new Shares, representing approximately 12.50% of the existing issued share capital of the Company and approximately 11.11% of the enlarged issued share capital of the Company |
| Subscription price for the Rights Shares                    | : HK\$0.50 per Rights Share  |
| Underwriter   | : DBS Asia Capital Limited, a licensed corporation under the SFO permitted to engage in types 1, 4 and 6 of the regulated activities as defined in the SFO                                   |

As at the Latest Practicable Date, the authorized share capital of the Company was HK\$2,000 million divided into 4,000,000,000 Shares of HK\$0.50 each. There are no existing options, warrants or other securities granted or issued by the Company which are convertible into Shares or confer any right to subscribe for Shares. The Company has undertaken with the Underwriter that on or before the Record Date, the Company will not (i) grant options or issue other securities which confer the right to subscribe for Shares; or (ii) issue any Shares.

#### Qualifying Shareholders

The Company only sends the Prospectus Documents to Qualifying Shareholders. This prospectus is sent to the Non-Qualifying Shareholders for information only.

To qualify for the Rights Issue, a Shareholder must:

- be registered as a member of the Company at the close of business on the Record Date; and
- has an address which appears on the register of members of the Company at the close of business on the Record Date which is in Hong Kong or if outside Hong Kong, is not in a Restricted Jurisdiction.

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## LETTER FROM THE BOARD

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As at the Record Date, there were a total of 16 Shareholders whose registered addresses appeared on the register of members of the Company were located in 9 jurisdictions outside Hong Kong (the “Overseas Shareholders”), namely, Australia, Canada, Denmark, Ireland, Macau, Malaysia, New Zealand, Singapore and the United States of America (the “Overseas Jurisdictions”). In compliance with Rule 13.36(2)(a) of the Listing Rules, the Directors sought legal advice regarding the legal restrictions under the laws of the Overseas Jurisdictions and the requirements of the relevant regulatory body or stock exchange in the Overseas Jurisdictions for offering the Rights Shares to the Overseas Shareholders. The Company, in reliance on the legal advice given by the legal counsel in the Restricted Jurisdictions regarding the legal restrictions under the laws of the Restricted Jurisdictions and the requirements of the relevant regulatory body or stock exchange in the Restricted Jurisdictions, considers that it would be necessary and expedient to exclude the Non-Qualifying Shareholders from the offer of the Rights Shares because there are legal and regulatory requirements and procedures in the Restricted Jurisdictions that need to be complied with by the Company if the offer of the Rights Shares are to be made to the Non-Qualifying Shareholders, which are unduly burdensome on the Company taking into account the number of Rights Shares involved in respect of the Non-Qualifying Shareholders and the extra legal costs and expenses that may be incurred and the extra time required to comply with those legal and regulatory requirements and procedures. The Provisional Allotment Letters and the Excess Application Forms will therefore not be sent to the Non-Qualifying Shareholders as no offer of Rights Shares will be made to the Non-Qualifying Shareholders. Based on the legal advice of the legal counsel in the Restricted Jurisdictions, this prospectus will be sent to the Non-Qualifying Shareholders for their information only which does not constitute an offer of the Rights Shares to such Non-Qualifying Shareholders and does not entitle such Non-Qualifying Shareholders to subscribe for the Rights Shares.

It is the responsibility of any person (including but without limitation to nominee, agent and trustee) receiving a copy of the Prospectus Documents outside Hong Kong wishing to take up the Rights Shares under the Rights Issue to satisfy himself/herself/itself as to the full observance of laws and regulations of the relevant jurisdiction including the obtaining of any governmental or other consents for observing any other formalities which may be required in such jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such jurisdiction in connection therewith. Any acceptance of the offer of the Rights Shares by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been fully complied with. If you are in doubt as to your position, you should consult your own professional advisors.

### **Closure of Register of Members**

The register of members of the Company was closed from 2 June 2005 to 15 June 2005 (both days inclusive). No transfer of Shares was registered during this period.

### **Subscription Price**

HK\$0.50 per Rights Share, payable in full when a Qualifying Shareholder accepts the relevant provisional allotments of Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for Rights Shares.

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## LETTER FROM THE BOARD

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The Subscription Price was determined with reference to the closing prices of the Shares on the Stock Exchange prior to the date of the Announcement and represents:

- (i) a discount of approximately 5.7% to the closing price of HK\$0.53 per Share quoted on the Stock Exchange on 12 May 2005 (the last trading day prior to the suspension of trading of the Shares on the Stock Exchange pending the release of the Announcement);
- (ii) a discount of approximately 5.1% to the theoretical ex-rights price of HK\$0.527 per Share based on that closing price per Share on 12 May 2005 (the last trading day prior to the suspension of trading of the Shares on the Stock Exchange pending the release of the Announcement);
- (iii) a discount of approximately 9.1% to the average closing price of HK\$0.55 per Share for the last ten full trading days prior to the date of the Announcement;
- (iv) a discount of approximately 7.4% to the theoretical ex-rights price of HK\$0.54 per Share based on the average closing price of HK\$0.55 per Share for the last ten full trading days prior to the date of the Announcement;
- (v) a discount of approximately 68.35% to the unaudited consolidated net assets per share of the Company as at 31 January 2005 of HK\$1.58 with reference to the unaudited consolidated net assets of the Company as disclosed in its interim report dated 15 April 2005; and
- (vi) a premium of approximately 7.5% to the closing price of HK\$0.465 per Share quoted on the Stock Exchange on the Latest Practicable Date.

### **Basis of Entitlement**

Subject to fulfillment of the conditions set out below in the paragraph headed “Conditions of the Rights Issue”, Qualifying Shareholders have been provisionally allotted one Rights Share for every eight Shares held on the Record Date at the Subscription Price for each Rights Share payable in full on acceptance.

### **Status of the Rights Shares**

When fully paid, issued and allotted, the fully-paid Rights Shares will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of issue and allotment of the fully-paid Rights Shares.

### **Rights of Non-Qualifying Shareholders**

The Prospectus Documents have not been registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong. In compliance with Rule 13.36(2)(a) of the Listing Rules, the Directors sought legal advice regarding the legal restrictions under the laws of the Overseas Jurisdictions and the requirements of the relevant regulatory body or stock exchange in the Overseas Jurisdictions for offering the Rights Shares to the Overseas Shareholders. The Company, in reliance on the legal advice given by the legal counsel in the Restricted Jurisdictions regarding the legal restrictions under the laws

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## LETTER FROM THE BOARD

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of the Restricted Jurisdictions and the requirements of the relevant regulatory body or stock exchange in the Restricted Jurisdictions, considers that it would be necessary and expedient to exclude the Non-Qualifying Shareholders from the offer of the Rights Shares. Accordingly, no provisional allotment of Rights Shares is or has been made to the Non-Qualifying Shareholders. The Company sends copies of this prospectus to Non-Qualifying Shareholders for their information only which does not constitute an offer of the Rights Shares to such Non-Qualifying Shareholders and does not entitle such Non-Qualifying Shareholders to subscribe for the Rights Shares. The Company does not send Provisional Allotment Letters or Excess Application Forms to the Non-Qualifying Shareholders.

The Company will make arrangements for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in the market in their nil-paid forms as soon as practicable after dealing in the nil-paid Rights Shares commences, if a premium (net of expenses) can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to the Non-Qualifying Shareholders in Hong Kong dollars pro rata to their respective shareholding as soon as practicable. The Company will retain individual amounts of less than HK\$100. Any such unsold Rights Shares will be available for excess application by the Qualifying Shareholders.

### **Fractional Entitlement to the Rights Shares**

Fractional entitlements to Rights Shares will not be provisionally allotted and will be rounded down to the nearest whole number. Rights Shares representing the aggregate of fractions of Rights Shares (rounded down to the nearest whole number) will be provisionally allotted to a nominee appointed by the Company and, if a premium of HK\$100 (net of expenses) can be obtained, will be sold by the Company or its appointed nominee and the net proceeds of sale will be retained by the Company for its own benefit. Any unsold fractions of Rights Shares will be available for excess application.

### **Undertaking of the Major Shareholders**

As at the Latest Practicable Date, the Major Shareholders are interested in an aggregate of 603,907,491 Shares, representing approximately 42% of the issued share capital of the Company. The Major Shareholders have irrevocably undertaken to the Company and the Underwriter to take up their respective entitlements under the Rights Issue in full. The Major Shareholders have also undertaken to the Company and the Underwriter that they will not dispose of or transfer any Shares owned by them prior to the completion of the Rights Issue or the termination of the Underwriting Agreement (whichever is the earlier). The Major Shareholders have further indicated that they do not intend to apply for any excess Rights Shares. Assuming that (a) the Rights Issue proceeds and is completed; (b) the Major Shareholders have taken up their respective entitlements under the Rights Issue in full, the Major Shareholders will be interested in approximately 42% of the issued share capital of the Company immediately after completion of the Rights Issue.

## LETTER FROM THE BOARD

Assuming that (a) the Rights Issue proceeds and is completed and (b) the Major Shareholders have taken up their respective entitlements under the Rights Issue in full, the interests of the following persons/entities in the issued share capital of the Company immediately after the completion of the Rights Issue will be as follows:

| Major Shareholders           | No. of Shares beneficially owned on the Record Date | Percentage of shareholding before the Rights Issue | No. of Shares owned on completion of the Rights Issue assuming that the public Shareholders have taken up their entitlements in full | Percentage of shareholding after the Rights Issue | No. of Shares owned on completion of the Rights Issue assuming that none of the public Shareholders will take up their entitlements and the Underwriter honours its underwriting commitment | Percentage of shareholding after the Rights Issue |
|------------------------------|---|--|--|---|---|---|
| Wisdoman Limited<br>(Note 1) | 484,991,750   | 33.73%   | 545,615,718  | 33.73%  | 545,615,718   | 33.73%  |
| Lam Kin Ngok, Peter (Note 2) | 110,794,951   | 7.71%  | 124,644,319  | 7.71%   | 124,644,319   | 7.71%   |
| Lam Kin Ming<br>(Note 3)     | 4,451,790   | 0.31%  | 5,008,263  | 0.31%   | 5,008,263   | 0.31%   |
| U Po Chu<br>(Note 4)         | 3,669,000   | 0.26%  | 4,127,625  | 0.26%   | 4,127,625   | 0.26%   |
| <b>Underwriter</b>           | 0   | 0  | 0  | 0   | 104,225,279   | 6.44%   |
| <b>Public</b>                | <u>833,802,219</u>                                  | <u>57.99%</u>                                      | <u>938,027,498</u>   | <u>57.99%</u>                                     | <u>833,802,219</u>  | <u>51.55%</u>                                     |
| <b>Total:</b>                | <u><u>1,437,709,710</u></u>                         | <u><u>100%</u></u>                                 | <u><u>1,617,423,423</u></u>  | <u><u>100%</u></u>                                | <u><u>1,617,423,423</u></u>   | <u><u>100%</u></u>                                |

Note 1: Wisdoman Limited is 50% owned by Madam U Po Chu and 50% owned by Mr. Lam Kin Ngok, Peter. Madam U Po Chu is a non-executive Director and Mr. Lam Kin Ngok, Peter is the Deputy Chairman and executive Director.

Note 2: Mr. Lam Kin Ngok, Peter is the Deputy Chairman and executive Director.

Note 3: Mr. Lam Kin Ming is the Chairman and executive Director.

Note 4: Madam U Po Chu is a non-executive Director.

### Listing and Dealings

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. It is expected that dealings in the Rights Shares in nil-paid form will commence on 17 June 2005 and will end on 24 June 2005 (both days inclusive) and dealings in the Rights Shares in fully-paid form will commence on 11 July 2005.

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## LETTER FROM THE BOARD

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Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted to CCASS.

For the purpose of trading on the Stock Exchange, a board lot for the Shares and the Rights Shares in both their nil-paid and fully-paid forms will be 1,000 Shares. Dealings in nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

### 3. UNDERWRITING ARRANGEMENTS

#### Underwriting Agreement:

|   |   |
|---|---|
| Date                                    | : 13 May 2005   |
| Underwriter                             | : DBS Asia Capital Limited  |
| Number of Rights Shares<br>underwritten | : All Rights Shares other than those undertaken to be taken up by<br>the Major Shareholders |
| Commission                              | : HK\$2,260,000   |

Save for the interest arising from the transaction contemplated by the Underwriting Agreement, the Underwriter is independent of and not connected with the Company or any connected person (as defined under the Listing Rules) of the Company. **The HK\$2,260,000 commission payable to the Underwriter represents approximately 4.3% of the total price payable on the Rights Shares underwritten by the Underwriter**, which was determined after arms length negotiations between the Company and the Underwriter with reference to current market practice for comparable fund raising exercises and taking into account prevailing conditions in the local equity market, and on that basis, the Directors consider that such rate of underwriting commission is fair and reasonable and on normal commercial terms.

#### Termination of the Underwriting Agreement

**If, at any time prior to the Latest Termination Time, one or more of the following events or matters shall develop, occur, arise or exist or come into effect:**

- (i) **save as publicly disclosed before the date of the Underwriting Agreement (including the information contained in the circular of Lai Sun Development Company Limited and the circular of eSun Holdings Limited both dated 15 September 2004 despatched to their respective shareholders), the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties given by the Company in the Underwriting**

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## LETTER FROM THE BOARD

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Agreement was untrue, inaccurate, misleading or breached and in each case, which is in the absolute opinion of the Underwriter, material in the context of the Rights Issue; or

- (ii) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, the PRC or elsewhere; or
- (iii) any change of an exceptional nature in local, national or international, financial, political, industrial or economic conditions; or
- (iv) any change of an exceptional nature in local, national or international financial markets including but not limited to equity securities or currency markets; or
- (v) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;

which event or events is or are in the reasonable opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or any member of the Group as a whole; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up,

then the Underwriter may, in its absolute discretion, in addition to and without prejudice to any other remedies to which the Underwriter may be entitled, by notice in writing to the Company, terminate the Underwriting Agreement.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.

#### 4. CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, among others, each of the following events happening:

- (i) the delivery by or on behalf of the Company one copy of each of the Prospectus Documents, duly signed by or on behalf of all Directors together with any requisite accompanying documents to the Stock Exchange and the Registrar of Companies of Hong Kong for filing and registration in accordance with the provisions of the Companies Ordinance (Chapter 32, Laws of Hong Kong) not later than the Record Date;
- (ii) due performance by each of the Major Shareholders of his or her or its obligations under the undertaking letters;

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## LETTER FROM THE BOARD

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- (iii) the posting of this prospectus to the Shareholders and the posting of the Provisional Allotment Letters and the Excess Application Forms to the Qualifying Shareholders not later than the Record Date, or such later date as the Company may (subject, if required, to the approval of the Stock Exchange) (with the agreement of the Underwriter) specify in writing to the Underwriter; and
- (iv) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) the listing of and permission to deal in, the Rights Shares, in their nil-paid and fully-paid forms, by not later than in the case of Rights Shares in nil-paid form, the first day of dealings in nil-paid Rights Shares and in the case of Rights Shares in fully-paid form, the first day of dealings in fully-paid Rights Shares.

**If any of the Conditions are not fulfilled or waived in whole or in part by the Underwriter on or before 5:00 p.m. Hong Kong time on 31 July 2005 being the long stop date for fulfillment of the Conditions; or the Underwriting Agreement is terminated in accordance with the terms thereof, then the Rights Issue will not proceed.** However, according to the current timetable, it is expected that all the Conditions will be fulfilled on or before 4 July 2005.

As the Rights Issue is subject to the above Conditions, it may or may not proceed accordingly.

### **5. WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES**

Existing Shares are expected to be dealt in on an ex-rights basis from 31 May 2005. Dealings in the Rights Shares in nil-paid form are expected to take place from 17 June 2005 to 24 June 2005 (both days inclusive). If the Underwriter terminates the Underwriting Agreement (see the paragraph headed “Termination of the Underwriting Agreement” above), or if the Conditions of the Rights Issue (see the section headed “Conditions of the Rights Issue” above) are not fulfilled, the Rights Issue will not proceed.

Any buying or selling of the Shares from now up to the date on which all such Conditions are fulfilled, and any buying or selling of nil-paid Rights Shares, is at investors’ own risk.

If in any doubt, investors should consider obtaining professional advice.

### **6. PROCEDURES FOR ACCEPTANCE AND TRANSFER OF RIGHTS SHARES BY QUALIFYING SHAREHOLDERS**

A Provisional Allotment Letter enclosed with this prospectus to Qualifying Shareholders will entitle the Qualifying Shareholders to subscribe for the number of Rights Shares shown therein. If you being a Qualifying Shareholder wish to exercise your right to subscribe for the Rights Shares specified in the enclosed Provisional Allotment Letter, you must lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Share Registrar by no later than 4:00 p.m. on Wednesday, 29 June 2005. **All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and cashier’s orders must be issued by, a bank in Hong Kong and made payable to “Lai Sun Garment (International) Limited — Provisional Allotment Account” and crossed “Account Payee Only”.**

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## LETTER FROM THE BOARD

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It should be noted that unless the Provisional Allotment Letter, together with the appropriate remittance, has been lodged by 4:00 p.m. on Wednesday, 29 June 2005 whether by the original allottee or any person to whom the rights have been transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If you wish to transfer all of your rights to subscribe for the Rights Shares provisionally allotted to you, you must complete and sign the form of transfer and nomination in the Provisional Allotment Letter, and hand the Provisional Allotment Letter to the transferee(s) or through whom you are transferring your rights to subscribe for the Rights Shares. The transferee(s) must then complete and sign the registration application form in the Provisional Allotment Letter, and lodge the Provisional Allotment Letter intact together with a remittance for the full amount payable on acceptance with the Share Registrar not later than 4:00 p.m. on 29 June 2005. If you wish to accept only part of your provisional allotment or if you wish to transfer all or part of your provisional allotment to more than one person, the Provisional Allotment Letter must be surrendered by not later than 4:30 p.m. on 21 June 2005 to the Share Registrar which will cancel the original Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required. All enquiries in connection with the Provisional Allotment Letter should be addressed to the Share Registrar at its address.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any Provisional Allotment Letter in respect of which the accompanying cheque is not honoured on first presentation is liable to be rejected, and in that event the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises its right to terminate the Underwriting Agreement before the Latest Termination Time (expected to be 5:00 p.m. on 4 July 2005) and/or if any of the Conditions are not fulfilled, the monies received from the Qualifying Shareholders in respect of the acceptance of the Rights Shares or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred will be returned to the Qualifying Shareholders or such other persons without interest, by means of cheques crossed "Account Payee Only" despatched by ordinary post at the risk of such Qualifying Shareholders or such other persons on or about 7 July 2005.

### **7. APPLICATION FOR EXCESS RIGHTS SHARES BY QUALIFYING SHAREHOLDERS**

Qualifying Shareholders may apply for (i) any unsold entitlements of the Non-Qualifying Shareholders; (ii) any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares and (iii) any unsold fractions of Rights Shares as referred to in the paragraph "Fractional Entitlement to the Rights Shares" above. Application can be made by Qualifying Shareholders completing the Excess Application Form and lodging the same with remittance for the excess Rights Shares with the Share Registrar not later than 4:00 p.m. on 29 June 2005. **All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, and cashier's orders must be issued by, a bank in Hong Kong and made payable to "Lai Sun Garment (International) Limited — Excess Application Account" and crossed "Account Payee Only".**

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgment of an Excess Application Form together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque

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## LETTER FROM THE BOARD

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or cashier's order will be honoured on first presentation. Any Excess Application Form in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

If no excess Rights Shares are allotted to you, the amount tendered on application by you is expected to be refunded in full without interest by means of cheque(s) dispatched by ordinary post at your own risk on or about 7 July 2005. If the number of excess Rights Shares allotted to you is less than the number applied for, the surplus application monies are also expected to be returned to you without interest by means of cheque(s) dispatched by ordinary post at your own risk on or about 7 July 2005.

If the Underwriter exercises its right to terminate the Underwriting Agreement before the Latest Termination Time (expected to be 5:00 p.m. on 4 July 2005) and/or if any of the Conditions are not fulfilled, the monies received in respect of the application for excess Rights Shares will be returned to the applicants without interest by means of cheques despatched by ordinary post at the risk of such applicants on or about 7 July 2005.

The Excess Application Form is for use only by the person(s) to whom it is addressed and is not transferable. All enquiries in connection with the Excess Application Form should be addressed to the Share Registrar at its address.

Any excess Rights Shares will, at the sole discretion of the Directors, be allocated and allotted on a fair and equitable basis by reference to market practice with a view to improve participation of the minority shareholders in excess Rights Shares, but preference will be given to those applications that will top up odd lots into whole board lots of 1,000.

### **8. BUSINESS REVIEW AND FUTURE PROSPECTS OF THE GROUP**

The principal activities of the Company are property investment and investment holding. The Group is principally engaged in the manufacture, sale and trading of garments (through Crocodile Garments Limited ("CGL") and its subsidiaries (the "CGL Group")), property development, property investment and investment holding. The Company holds approximately 54.93% of the issued share capital of CGL and is the holding company of CGL, which is listed on the Stock Exchange. The CGL Group is principally engaged in the manufacture and sale and trading of garments and in property investment. In addition, the Company has an interest of approximately 45.13% in Lai Fung Holdings Limited ("LFH"), a company listed on the Stock Exchange with property development and investment principally in the PRC; and an interest of approximately 12.42% in Lai Sun Development Company Limited ("LSD"), a company listed on the Stock Exchange with property and media-related interests. LFH is equity accounted for as an associate in the consolidated financial statements of the Group. The Group's interest in LSD is treated as a long term investment in the consolidated financial statements of the Group.

As disclosed in the Company's annual report for the year ended 31 July 2004, the Company's principal activities also included the manufacture and sale of garments during the year ended 31 July 2004. The turnover of the Group derived from the sale of garments for each of the years ended 31 July 2003 and 2004 are approximately HK\$473 million and HK\$449 million. The turnover of the Group derived from the transfer of textile quotas for each of the years ended 31 July 2003 and 2004 are approximately HK\$795 million and HK\$378 million, representing approximately 61% and 44% respectively of the total turnover of the Group for those two financial years. The turnover of the Group derived from the property rentals for each of the years ended 31 July 2003 and 2004 are approximately HK\$14 million and HK\$17 million. The turnover of the Group derived from other

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## LETTER FROM THE BOARD

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operations for each of the years ended 31 July 2003 and 2004 are approximately HK\$13 million and HK\$15 million. However, due to the phasing out of the quota system for exports of garments and textiles from Hong Kong under the Multi-Fibre Arrangement of the General Agreement on Tariffs and Trade which took effect as planned on 1 January 2005 (the “Effective Date”), the Company no longer carries on the business of manufacture and sale of garments and the Group no longer engages in the transfer of export quotas. Manufacture and sale of garments are however, still carried on by the Group through the CGL Group.

The expiration of the quota system as mentioned above will have significant adverse impact on the Group as the total turnover of the Group may substantially reduce, however, as stated in the paragraph “Working Capital Statement” in Appendix I to this prospectus, the Directors are of the opinion that the Group has sufficient working capital for its requirements for at least 12 months from the date of this prospectus. In view of the significant adverse impact of the expiration of the quota system as aforesaid on the Group, the Directors are evaluating different development strategies, building on the existing fundamental strengths of the Company and with the benefit of the Shareholders as a whole in mind, such as the Group’s investment in the property project in Su Jia Xiang, Zhabei, Shanghai, the PRC as mentioned in the paragraph headed “Reasons for the Rights Issue and Use of the Proceeds”. It is anticipated that the results of the Group will be heavily influenced by the performance of the CGL Group and LFH and its subsidiaries (the “LFH Group”).

The Directors subscribe to the views of the CGL’s directors that economic fundamentals in both Hong Kong and the PRC will remain strong but appreciation in property values in Hong Kong has pushed up rental expenses, which could affect the profitability of its operations. Given the projected growth in the economy of the PRC in the short-term and the increasing affluence of an expanding middle-class, CGL remains optimistic on the fashion retail market in the PRC and plans to establish its first flagship store in Shanghai, the PRC.

Both room rates and occupancy rate at the Hong Kong Plaza, the office, commercial and service apartments property of LFH situated in the prime Huaihaizhong Road in Shanghai, have recorded encouraging upward adjustments. In view of the demand for quality properties offering similar facilities as the Hong Kong Plaza, LFH expects its investment property in Shanghai to continue to contribute steady rental income. The projected sale of completed developments scheduled for the next few years, including Phase II of Regents Park in Shanghai and Phase IV of Eastern Place in Guangzhou, is expected to continue to contribute to the turnover and profitability of the LFH Group.

The Group held 42.25% of LSD before completion of the LSD debt settlement plan on 7 December 2004 (the “Debt Settlement”) when LSD was equity accounted for as an associate in the consolidated financial statements of the Group, and the Group currently holds approximately 12.42% of LSD. The successful completion of the debt settlement plan of LSD in December 2004 has enabled it to re-establish a firm financial footing. LSD will remain prudent in formulating its property development strategy. It will continue to pursue hotel management opportunities in Hong Kong and the rest of Asia through Furama Hotel and Resorts International Limited, which has maintained a respectable track record in the management of three- to four-star hotels.

Before completion of the Debt Settlement, the Company was interested in approximately 42.25% of LSD which in turn was interested in approximately 42.54% of eSun Holdings Limited (“eSun”). As at the Latest Practicable Date, the Company was interested in approximately 12.42% of LSD which in turn was interested in approximately 38.31% of eSun, and eSun in turn also owned approximately 40.8% of LSD. eSun announced at the end of 2004 its intention to actively explore the feasibility of participating in the residential and hotels property development market in Macau.

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## LETTER FROM THE BOARD

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eSun announced on 30 May 2005 that it had received conditional approval of its proposed development plans in respect of a site in Cotai City of Macau. The aforesaid plans envisage the construction, on approximately 87% of the site, of a television/film studio, concert hall, convention and exhibition centre and retail complex, two four- to five-star hotels and an all-suite hotel covering a total gross floor area of approximately 340,000 square metres. Should eSun proceed with its plans, it is anticipated that the component and weighting of investments of the eSun group will undergo significant changes.

### 9. REASONS FOR THE RIGHTS ISSUE AND USE OF THE PROCEEDS

The Directors consider that the Rights Issue will strengthen the capital base and the financial position of the Group. The Directors also consider that the most appropriate and equitable means of raising the required capital is by way of a rights issue, which enable all Shareholders to participate in the future development of the Group on equal terms. The net proceeds of the Rights Issue are estimated to be approximately HK\$85.8 million (on the basis that all 179,713,713 new Shares will be issued under the Rights Issue) after deducting estimated expenses of approximately HK\$4.1 million which includes underwriting commission, legal and professional and other expenses in connection with the Rights Issue. It is currently intended that approximately 35% of the net proceeds of the Rights Issue, will be dedicated for consultancy and development planning expenses for the Group's property project situated at the junction of Da Tong Road and Zhi Jiang Xi Road, Su Jia Xiang, Zhabei, Shanghai, PRC by way of either shareholder's loan or injection of capital to the equity joint venture company which owns this project and in which the Group has a 95% equity interests. This project will be developed into a commercial and residential complex with gross floor area of approximately 135,000 sq.m. for re-sale and/or rental to be determined by the Group. The remaining 5% equity interest in such equity joint venture company is owned by a PRC joint venture partner, and to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the PRC joint venture partner and its ultimate beneficial owner are third parties independent of and not connected persons of the Company. Both land and resettlement costs in the aggregate amount of approximately RMB228 million (equivalent to approximately HK\$215 million) have already been fully paid. The building plans have been submitted to the relevant authorities for approval; it is envisaged that approval for the building plans will be obtained within the next few months and construction work will start as soon as practicable. It is currently expected that the construction work will be completed by 2009. Since the building plans have not been approved by the relevant authorities, it is not certain at this stage as to the total costs of this project as any change in the building plans may have impact on the estimation of the total costs of this project. The remaining 65% of the net proceeds from the Rights Issue will be used as additional working capital for the Group. The Company had not implemented any equity fund raising exercise within the 12-month period prior to the date of the Underwriting Agreement and the date of the Announcement respectively.

### 10. SHARE CERTIFICATES

The Shares are trading on the Stock Exchange in board lots of 1,000.

Subject to the fulfilment of the Conditions, certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto at their own risk on or about 7 July 2005.

Where entitlements to the Rights Shares in fully-paid form exceed one board lot, it is proposed, so far as is practicable, to issue Share certificates in board lots of 1,000 Rights Shares each, with a separate Share certificate for the balance.

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## LETTER FROM THE BOARD

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### 11. TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing or dealing in the Right Shares (in their nil-paid and/or fully-paid forms) and, as regards the Non-Qualifying Shareholders, their receipt of the net proceeds of the nil-paid forms of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasized that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding, disposal of, or dealing in the Rights Shares (in their nil-paid and/or fully-paid forms).

### 12. ADDITIONAL INFORMATION

Your attention is also drawn to additional information set out in the appendices to this prospectus.

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

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the consolidated profit and loss accounts of the Group for each of the six months ended 31 January 2005 and 2004 and each of the three years ended 31 July 2004, 2003 and 2002 and the consolidated balance sheets of the Group as at 31 January 2005 and 31 July 2004, 2003 and 2002.

**Consolidated profit and loss accounts**

|   | Six months ended |                  | Year ended 31 July |                  |                    |                    |
|---|------------------|------------------|--------------------|------------------|--------------------|--------------------|
|   | 31 January       |                  | 2004               |                  | 2002               |                    |
|   | 2005             | 2004             | 2004               | 2003             | 2002               | 2002               |
|   | HK\$'000         | HK\$'000         | HK\$'000           | HK\$'000         | HK\$'000           | HK\$'000           |
|   | (Note 1)         | (Note 1)         | (Note 2)           | (Note 2)         | (Note 3)           | (Note 4)           |
| Turnover  | 286,357          | 533,662          | 858,755            | 1,295,241        | 1,297,622          | 1,297,622          |
| Cost of sales   | <u>(135,946)</u> | <u>(366,052)</u> | <u>(511,457)</u>   | <u>(952,376)</u> | <u>(849,014)</u>   | <u>(849,014)</u>   |
| Gross profit  | 150,411          | 167,610          | 347,298            | 342,865          | 448,608            | 448,608            |
| Other revenue and gains   | 20,783           | 17,291           | 43,469             | 10,415           | 11,296             | 11,296             |
| Administrative expenses   | (79,050)         | (82,677)         | (105,886)          | (114,279)        | (112,828)          | (112,828)          |
| Selling and distribution costs  | (54,982)         | (52,893)         | (149,408)          | (182,998)        | (229,286)          | (229,286)          |
| Other operating expenses  | <u>(9,323)</u>   | <u>(10,466)</u>  | <u>(27,397)</u>    | <u>(47,282)</u>  | <u>(80,650)</u>    | <u>(80,650)</u>    |
| PROFIT FROM OPERATING ACTIVITIES  | 27,839           | 38,865           | 108,076            | 8,721            | 37,140             | 37,140             |
| Finance costs   | (6,901)          | (6,385)          | (12,336)           | (13,099)         | (6,814)            | (6,814)            |
| Share of profits and losses of associates                               | 37,353           | 105,461          | 62,968             | (68,531)         | (924,016)          | (922,849)          |
| Negative goodwill recognised  | 13,657           | 9,576            | 24,865             | 11,329           | 3,358              | 3,723              |
| Provision for impairment in value of an associate                       | —                | —                | —                  | —                | (261,714)          | (273,812)          |
| Gain/(loss) on deemed disposal of interest in an associate              | <u>2,421,449</u> | <u>(5,614)</u>   | <u>—</u>           | <u>—</u>         | <u>—</u>           | <u>—</u>           |
| PROFIT/(LOSS) BEFORE TAX  | 2,493,397        | 141,903          | 183,573            | (61,580)         | (1,152,046)        | (1,162,612)        |
| Tax   | <u>(14,480)</u>  | <u>(16,213)</u>  | <u>(38,417)</u>    | <u>(50,017)</u>  | <u>(32,733)</u>    | <u>(28,622)</u>    |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS                                 | 2,478,917        | 125,690          | 145,156            | (111,597)        | (1,184,779)        | (1,191,234)        |
| Minority interests  | <u>(8,172)</u>   | <u>(4,916)</u>   | <u>(21,586)</u>    | <u>26,487</u>    | <u>(8,776)</u>     | <u>(9,040)</u>     |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | <u>2,470,745</u> | <u>120,774</u>   | <u>123,570</u>     | <u>(85,110)</u>  | <u>(1,193,555)</u> | <u>(1,200,274)</u> |

*Notes:*

1. The unaudited consolidated profit and loss accounts for the six months ended 31 January 2005 and 2004 are extracted from the Company's 2004–2005 interim report.
2. The audited consolidated profit and loss accounts for the years ended 31 July 2004 and 2003 are extracted from the Company's 2003–2004 annual report.
3. The restated consolidated profit and loss account for the year ended 31 July 2002 is based on the audited consolidated profit and loss account for the year ended 31 July 2002 extracted from the Company's 2001–2002 annual report and adjusted for the impact on the adoption of the revised Statement of Standard Accounting Practice 12 "Income tax". Such restated consolidated profit and loss account has not been audited and has not been disclosed in any of the Company's annual reports.
4. The audited consolidated profit and loss account for the year ended 31 July 2002 is extracted from the Company's 2001–2002 annual report.

There is no qualification or modification in the auditors' report for each of the financial years ended 31 July 2004, 2003 and 2002 as disclosed in the annual reports of the Company for those financial years.

## Consolidated balance sheets

|  | As at            |                  | As at 31 July          |                        |                  |
|--|------------------|------------------|------------------------|------------------------|------------------|
|  | 31 January       |                  | 2003                   | 2002                   | 2002             |
|  | 2005             | 2004             | 2003                   | 2002                   | 2002             |
|  | HK\$'000         | HK\$'000         | HK\$'000               | HK\$'000               | HK\$'000         |
|  | (Note 1)         | (Note 2)         | (Restated)<br>(Note 2) | (Restated)<br>(Note 3) | (Note 4)         |
| <b>NON-CURRENT ASSETS</b>                    |                  |                  |                        |                        |                  |
| Fixed assets                                 | 27,161           | 21,241           | 31,465                 | 35,581                 | 35,581           |
| Investment properties                        | 265,680          | 265,680          | 246,900                | 221,100                | 221,100          |
| Properties under development                 | 178,481          | 178,150          | 176,397                | 177,228                | 177,228          |
| Goodwill                                     | 62,917           | 71,907           | 89,887                 | 107,867                | 107,867          |
| Interests in associates                      | 1,636,829        | 1,593,166        | 1,507,801              | 1,559,373              | 1,659,150        |
| Long term investment                         | 411,271          | —                | —                      | —                      | —                |
| Deferred tax assets                          | 8,926            | 13,398           | 10,043                 | 10,681                 | —                |
|  | <u>2,591,265</u> | <u>2,143,542</u> | <u>2,062,493</u>       | <u>2,111,830</u>       | <u>2,200,926</u> |
| <b>CURRENT ASSETS</b>                        |                  |                  |                        |                        |                  |
| Short term investments                       | 27,202           | 24,250           | 19,637                 | 18,150                 | 18,150           |
| Inventories                                  | 86,790           | 74,986           | 92,033                 | 138,564                | 138,564          |
| Deposits and other receivables               | 31,881           | 23,166           | 22,872                 | 30,900                 | 30,900           |
| Trade receivables                            | 100,639          | 95,498           | 255,881                | 361,309                | 361,309          |
| Cash and cash equivalents                    | 213,168          | 182,539          | 99,575                 | 99,175                 | 99,175           |
|  | <u>459,680</u>   | <u>400,439</u>   | <u>489,998</u>         | <u>648,098</u>         | <u>648,098</u>   |
| <b>CURRENT LIABILITIES</b>                   |                  |                  |                        |                        |                  |
| Other payables and accruals                  | 83,368           | 116,519          | 109,559                | 98,866                 | 98,866           |
| Trade and bills payables                     | 145,257          | 125,517          | 262,674                | 413,836                | 413,836          |
| Tax payable                                  | 24,556           | 40,974           | 46,069                 | 28,625                 | 28,625           |
| Interest-bearing bank and other borrowings   | 109,482          | 73,113           | 84,517                 | 88,406                 | 88,406           |
|  | <u>362,663</u>   | <u>356,123</u>   | <u>502,819</u>         | <u>629,733</u>         | <u>629,733</u>   |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>      | <u>97,017</u>    | <u>44,316</u>    | <u>(12,821)</u>        | <u>18,365</u>          | <u>18,365</u>    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> | <u>2,688,282</u> | <u>2,187,858</u> | <u>2,049,672</u>       | <u>2,130,195</u>       | <u>2,219,291</u> |
| <b>NON-CURRENT LIABILITIES</b>               |                  |                  |                        |                        |                  |
| Note payable                                 | 195,000          | 195,000          | 210,000                | 210,000                | 210,000          |
| Long term deposits received                  | —                | —                | 6,875                  | 23,375                 | 23,375           |
| Interest-bearing bank and other borrowings   | 70,000           | 38,800           | —                      | 7                      | 7                |
|  | <u>265,000</u>   | <u>233,800</u>   | <u>216,875</u>         | <u>233,382</u>         | <u>233,382</u>   |
| <b>MINORITY INTERESTS</b>                    | <u>152,492</u>   | <u>144,320</u>   | <u>122,484</u>         | <u>148,970</u>         | <u>144,156</u>   |
|  | <u>2,270,790</u> | <u>1,809,738</u> | <u>1,710,313</u>       | <u>1,747,843</u>       | <u>1,841,753</u> |
| <b>CAPITAL AND RESERVES</b>                  |                  |                  |                        |                        |                  |
| Issued capital                               | 718,855          | 718,855          | 718,855                | 718,855                | 718,855          |
| Reserves                                     | 1,551,935        | 1,090,883        | 991,458                | 1,028,988              | 1,122,898        |
|  | <u>2,270,790</u> | <u>1,809,738</u> | <u>1,710,313</u>       | <u>1,747,843</u>       | <u>1,841,753</u> |

*Notes:*

1. The unaudited consolidated balance sheet as at 31 January 2005 is extracted from the Company's 2004–2005 interim report.
2. The audited consolidated balance sheets as at 31 July 2004 and 2003 are extracted from the Company's 2003–2004 annual report.
3. The restated consolidated balance sheet as at 31 July 2002 is based on the audited consolidated balance sheet as at 31 July 2002 extracted from the Company's 2001–2002 annual report and adjusted for the impact on the adoption of the revised Statement of Standard Accounting Practice 12 "Income tax". Such restated consolidated balance sheet has not been audited and has not been disclosed in any of the Company's annual reports.
4. The audited consolidated balance sheet as at 31 July 2002 is extracted from the Company's 2001–2002 annual report.

## 2. AUDITED FINANCIAL INFORMATION

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 July 2004 as extracted from the 2003–2004 annual report of the Group as appropriate. All definitions, page numbers and note references referred to therein are those of the 2003–2004 annual report.

**Consolidated Profit and Loss Account**

*Year ended 31st July, 2004*

|  | <i>Notes</i> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i><br><i>(Restated)</i> |
|--|--------------|--------------------------------|---|
| 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<br>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> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i><br><i>(Restated)</i> |
|--|--------------|--------------------------------|---|
| <b>NON-CURRENT ASSETS</b>                    |              |                                |   |
| Fixed assets                                 | 13           | 21,241                         | 31,465  |
| Investment properties                        | 14           | 265,680                        | 246,900   |
| Properties under development                 | 15           | 178,150                        | 176,397   |
| Goodwill                                     | 17           | 71,907                         | 89,887  |
| Interests in associates                      | 18           | 1,593,166                      | 1,507,801   |
| Deferred tax assets                          | 26           | <u>13,398</u>                  | <u>10,043</u>                                       |
|  |              | <u>2,143,542</u>               | <u>2,062,493</u>                                    |
| <b>CURRENT ASSETS</b>                        |              |                                |   |
| Short term investments                       | 19           | 24,250                         | 19,637  |
| Inventories                                  | 20           | 74,986                         | 92,033  |
| Deposits and other receivables               |              | 23,166                         | 22,872  |
| Trade receivables                            | 21           | 95,498                         | 255,881   |
| Cash and cash equivalents                    | 22           | <u>182,539</u>                 | <u>99,575</u>                                       |
|  |              | <u>400,439</u>                 | <u>489,998</u>                                      |
| <b>CURRENT LIABILITIES</b>                   |              |                                |   |
| Other payables and accruals                  |              | 116,519                        | 109,559   |
| Trade and bills payables                     | 23           | 125,517                        | 262,674   |
| Tax payable                                  |              | 40,974                         | 46,069  |
| Interest-bearing bank and other borrowings   | 24           | <u>73,113</u>                  | <u>84,517</u>                                       |
|  |              | <u>356,123</u>                 | <u>502,819</u>                                      |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>      |              | <u>44,316</u>                  | <u>(12,821)</u>                                     |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              | <u>2,187,858</u>               | <u>2,049,672</u>                                    |
| <b>NON-CURRENT LIABILITIES</b>               |              |                                |   |
| 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>                                      |
| <b>MINORITY INTERESTS</b>                    |              | <u>144,320</u>                 | <u>122,484</u>                                      |
|  |              | <u>1,809,738</u>               | <u>1,710,313</u>                                    |
| <b>CAPITAL AND RESERVES</b>                  |              |                                |   |
| 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<br>HK\$'000 | Share premium account<br>HK\$'000 | Fixed asset revaluation reserve<br>HK\$'000 | Investment property revaluation reserve<br>HK\$'000 | Capital reserve<br>HK\$'000 | General reserve<br>HK\$'000 | Exchange fluctuation reserve<br>HK\$'000 | Accumulated losses<br>HK\$'000 | Total<br>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:<br>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:<br>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.

|                             | Issued<br>capital<br><i>HK\$'000</i> | Share<br>premium<br>account<br><i>HK\$'000</i> | Fixed asset<br>revaluation<br>reserve<br><i>HK\$'000</i> | Capital<br>reserve<br><i>HK\$'000</i> | General<br>reserve<br><i>HK\$'000</i> | Exchange<br>fluctuation<br>reserve<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|-----------------------------|--------------------------------------|--|--|---------------------------------------|---------------------------------------|---|--|--------------------------|
| Reserves retained by:       |                                      |  |  |                                       |                                       |   |  |                          |
| Company and<br>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<br>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> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i><br><i>(Restated)</i> |
|--|--------------|--------------------------------|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |              |                                |   |
| 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            | <u>5,614</u>                   | <u>—</u>  |
| 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 |              | <u>(137,072)</u>               | <u>(156,969)</u>                                    |
| Cash generated from operations   |              | 157,189                        | 59,340  |
| Hong Kong profits tax paid   |              | (17,923)                       | (317)   |
| Overseas taxes paid  |              | <u>—</u>                       | <u>(941)</u>  |
| Net cash inflow from operating activities  |              | <u>139,266</u>                 | <u>58,082</u>                                       |

|  | <i>Notes</i> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i><br><i>(Restated)</i> |
|--|--------------|--------------------------------|---|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |              |                                |   |
| 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>                                     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |              |                                |   |
| 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>                                     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |              |                                |   |
|  |              | 83,010                         | 2,113   |
| Cash and cash equivalents at beginning of year   |              | 97,245                         | 95,173  |
| Effect of foreign exchange rate changes, net   |              | <u>52</u>                      | <u>(41)</u>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  |              | <u><u>180,307</u></u>          | <u><u>97,245</u></u>                                |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>                                 |              |                                |   |
| 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> | <b>2004</b><br><i>HK\$'000</i> | <b>2003</b><br><i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |              |                                |                                |
| Fixed assets                                 | 13           | 5,373                          | 4,011                          |
| Investment properties                        | 14           | 74,980                         | 63,900                         |
| Interests in subsidiaries                    | 16           | 601,424                        | 586,911                        |
| Interests in associates                      | 18           | <u>406,297</u>                 | <u>370,868</u>                 |
|  |              | <u>1,088,074</u>               | <u>1,025,690</u>               |
| <b>CURRENT ASSETS</b>                        |              |                                |                                |
| Short term investments                       | 19           | 24,250                         | 19,637                         |
| Deposits and other receivables               |              | 2,263                          | 4,501                          |
| Trade receivables                            |              | 84,933                         | 229,033                        |
| Cash and cash equivalents                    | 22           | <u>22,002</u>                  | <u>28,026</u>                  |
|  |              | <u>133,448</u>                 | <u>281,197</u>                 |
| <b>CURRENT LIABILITIES</b>                   |              |                                |                                |
| 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   | 24           | <u>30,010</u>                  | <u>40,007</u>                  |
|  |              | <u>163,604</u>                 | <u>323,158</u>                 |
| <b>NET CURRENT LIABILITIES</b>               |              | <u>(30,156)</u>                | <u>(41,961)</u>                |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              | 1,057,918                      | 983,729                        |
| <b>NON-CURRENT LIABILITIES</b>               |              |                                |                                |
| 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>                 |
|  |              | <u>824,118</u>                 | <u>766,854</u>                 |
| <b>CAPITAL AND RESERVES</b>                  |              |                                |                                |
| Issued capital                               | 27           | 718,855                        | 718,855                        |
| Reserves                                     | 28(b)        | <u>105,263</u>                 | <u>47,999</u>                  |
|  |              | <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                 |                   |                  |                      |                |                     |                 |                 |                 |              |                | <u>10,556</u>   | <u>3,402</u>     |
| 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  |                   |                  |                      |                |                     |                 |                 |                 |              |                | <u>24,865</u>   | <u>11,329</u>    |
| Profit/(loss) before tax  |                   |                  |                      |                |                     |                 |                 |                 |              |                | 183,573         | (61,580)         |
| Tax   |                   |                  |                      |                |                     |                 |                 |                 |              |                | <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 |                   |                  |                      |                |                     |                 |                 |                 |              |                | <u>123,570</u>  | <u>(85,110)</u>  |

## Group

|   | Garment operation |                        | Property development |                        | Property investment |                        | Others    |                        | Consolidated     |                        |
|---|-------------------|------------------------|----------------------|------------------------|---------------------|------------------------|-----------|------------------------|------------------|------------------------|
|   | 2004              | 2003                   | 2004                 | 2003                   | 2004                | 2003                   | 2004      | 2003                   | 2004             | 2003                   |
|   | HK\$'000          | HK\$'000<br>(Restated) | HK\$'000             | HK\$'000<br>(Restated) | HK\$'000            | HK\$'000<br>(Restated) | HK\$'000  | HK\$'000<br>(Restated) | HK\$'000         | HK\$'000<br>(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  |                   |                        |                      |                        |                     |                        |           |                        | <u>2,543,981</u> | <u>2,552,491</u>       |
| 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   |                   |                        |                      |                        |                     |                        |           |                        | <u>589,923</u>   | <u>719,694</u>         |
| 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                                       | <u>4,735</u>      | <u>6,565</u>           | <u>—</u>             | <u>—</u>               | <u>838</u>          | <u>245</u>             | <u>41</u> | <u>54</u>              | <u>5,614</u>     | <u>6,864</u>           |

## (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<br>(Restated) | HK\$'000          | HK\$'000<br>(Restated) | HK\$'000                 | HK\$'000<br>(Restated) | HK\$'000       | HK\$'000<br>(Restated) |
| Segment revenue:            |                |                        |                   |                        |                          |                        |                |                        |
| Sales to external customers | <u>247,892</u> | <u>253,703</u>         | <u>232,719</u>    | <u>246,047</u>         | <u>378,144</u>           | <u>795,491</u>         | <u>858,755</u> | <u>1,295,241</u>       |
| Other segment information:  |                |                        |                   |                        |                          |                        |                |                        |
| Segment assets              | 440,114        | 448,990                | 227,096           | 254,032                | 87,668                   | 232,050                | 754,878        | 935,072                |
| Capital expenditure         | <u>4,754</u>   | <u>4,936</u>           | <u>860</u>        | <u>1,928</u>           | <u>—</u>                 | <u>—</u>               | <u>5,614</u>   | <u>6,864</u>           |

## 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:

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

|   | <b>Group</b>    |                  |
|---|-----------------|------------------|
|   | <b>2004</b>     | <b>2003</b>      |
|   | <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):

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2004</b>     | <b>2003</b>     |
|  | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 ( <i>including directors' remuneration — see note 9</i> ):         |                 |                 |
| Wages and salaries   | 89,333          | 102,097         |
| Pension scheme contributions   | 2,446           | 2,857           |
| Less: Forfeited contributions  | <u>—</u>        | <u>(219)</u>    |
| Net pension scheme contributions**   | <u>2,446</u>    | <u>2,638</u>    |
|  | <u>91,779</u>   | <u>104,735</u>  |
| 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  | <u>822</u>      | <u>1,152</u>    |
| Net rental income  | <u>(15,943)</u> | <u>(12,902)</u> |

\* 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

|  | <b>Group</b>    |                 |
|--|-----------------|-----------------|
|  | <b>2004</b>     | <b>2003</b>     |
|  | <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:

|   | <b>Group</b>    |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <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                                      | <u>38</u>       | <u>38</u>       |
|   | <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:

|                             | <b>Group</b>               |                            |
|-----------------------------|----------------------------|----------------------------|
|                             | <b>2004</b>                | <b>2003</b>                |
|                             | <i>Number of directors</i> | <i>Number of directors</i> |
| 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      | <u>—</u>                   | <u>1</u>                   |
|                             | <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:

|   | <b>Group</b>         |                     |
|---|----------------------|---------------------|
|   | <b>2004</b>          | <b>2003</b>         |
|   | <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                                      | <u>41</u>            | <u>24</u>           |
|   | <u><u>11,567</u></u> | <u><u>6,484</u></u> |

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

|                               | <b>Group</b>               |                            |
|-------------------------------|----------------------------|----------------------------|
|                               | <b>2004</b>                | <b>2003</b>                |
|                               | <i>Number of employees</i> | <i>Number of employees</i> |
| 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 | <u>1</u>                   | <u>—</u>                   |
|                               | <u><u>3</u></u>            | <u><u>2</u></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.

|  | <b>Group</b>         |                      |
|--|----------------------|----------------------|
|  | <b>2004</b>          | <b>2003</b>          |
|  | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
|  |                      | <i>(Restated)</i>    |
| Provision for tax for the year:            |                      |                      |
| Current — Hong Kong                        | 13,635               | 18,202               |
| Deferred ( <i>note 26</i> )                | <u>(3,355)</u>       | <u>638</u>           |
|  | <u>10,280</u>        | <u>18,840</u>        |
| Prior year underprovision/(overprovision): |                      |                      |
| Hong Kong                                  | <u>(807)</u>         | <u>500</u>           |
| 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:

|   | <b>Group</b>    |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <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>38,417</u>   | <u>50,017</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,<br>2003<br><i>HK\$'000</i> | Additions<br><i>HK\$'000</i> | Disposals<br><i>HK\$'000</i> | Revaluation<br><i>HK\$'000</i> | Transfer to<br>investment<br>properties<br><i>HK\$'000</i> | 31st July,<br>2004<br><i>HK\$'000</i> |
|-----------------------------------|---------------------------------------|------------------------------|------------------------------|--------------------------------|--|---------------------------------------|
| 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,<br>2003<br><i>HK\$'000</i> | Additions<br><i>HK\$'000</i> | Disposals<br><i>HK\$'000</i> | 31st July,<br>2004<br><i>HK\$'000</i> |
|---|---------------------------------------|------------------------------|------------------------------|---------------------------------------|
| Cost or valuation:  |                                       |                              |                              |                                       |
| Medium term leasehold land and buildings<br>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<br>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<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> | 2003<br><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)                 |
| At end of year, at valuation       | <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

|   | <b>Group</b>    |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <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             |
|   | <u>178,150</u>  | <u>176,397</u>  |
| At end of year, at carrying value       | <u>178,150</u>  | <u>176,397</u>  |

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

|   | <b>Company</b>  |                 |
|---|-----------------|-----------------|
|   | <b>2004</b>     | <b>2003</b>     |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Shares listed in Hong Kong, at cost                     | 7,265           | 7,265           |
| Unlisted shares, at cost                                | 486             | 486             |
|   | <u>7,751</u>    | <u>7,751</u>    |
| 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)       |
|   | <u>593,673</u>  | <u>579,160</u>  |
|   | <u>601,424</u>  | <u>586,911</u>  |
| Market value of listed shares at the balance sheet date | <u>920</u>      | <u>600</u>      |

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/<br>registration/<br>operations | Nominal value<br>of issued/<br>registered share<br>capital | Class of<br>shares held | Percentage of equity<br>interest attributable<br>to the Company |          | Principal<br>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                  |
| 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:

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

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

|   | <b>Group</b>            |                         | <b>Company</b>        |                       |
|---|-------------------------|-------------------------|-----------------------|-----------------------|
|   | <b>2004</b>             | <b>2003</b>             | <b>2004</b>           | <b>2003</b>           |
|   | <i>HK\$'000</i>         | <i>HK\$'000</i>         | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
|   |                         | <i>(Restated)</i>       |                       |                       |
| 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                    | <u>(770,501)</u>        | <u>(811,194)</u>        | <u>—</u>              | <u>—</u>              |
|   | 1,593,701               | 1,507,384               | 2,381,057             | 2,344,673             |
| Amounts due from associates                         | 2,603                   | 2,571                   | 1,647                 | 2,435                 |
| Amounts due to associates                           | <u>(2,182)</u>          | <u>(2,019)</u>          | <u>(2,182)</u>        | <u>(2,015)</u>        |
|   | 1,594,122               | 1,507,936               | 2,380,522             | 2,345,093             |
| Provision for impairment                            | <u>(956)</u>            | <u>(135)</u>            | <u>(1,974,225)</u>    | <u>(1,974,225)</u>    |
|   | <u><u>1,593,166</u></u> | <u><u>1,507,801</u></u> | <u><u>406,297</u></u> | <u><u>370,868</u></u> |
| Market value of listed shares at balance sheet date | <u><u>598,226</u></u>   | <u><u>356,875</u></u>   | <u><u>448,788</u></u> | <u><u>265,079</u></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                | <u>(89,791)</u> |
| As restated                          | 825,881         |
| Deemed disposal of an associate      | <u>(16,324)</u> |
| At 31st July, 2004                   | <u>809,557</u>  |
| Recognition as income:               |                 |
| At beginning of year                 |                 |
| As previously reported               | 16,284          |
| Prior year adjustment                | <u>(1,597)</u>  |
| As restated                          | 14,687          |
| Recognised as income during the year | 24,865          |
| Deemed disposal of an associate      | <u>(496)</u>    |
| As 31st July, 2004                   | <u>39,056</u>   |
| Net book value:                      |                 |
| At 31st July, 2004                   | <u>770,501</u>  |
| At 31st July, 2003 (as restated)     | <u>811,194</u>  |

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:

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

*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:

|  | <b>As at<br/>31st July, 2004</b><br><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   | <u>(215,708)</u>   |
|  | <u><u>5,275,298</u></u>                                  |
|  | <b>Year ended<br/>31st July, 2004</b><br><i>HK\$'000</i> |
| Turnover   | <u>630,204</u>   |
| Profit before tax  | 240,445  |
| Tax  | <u>(63,820)</u>  |
| Profit before minority interests                                 | 176,625  |
| Minority interests   | <u>(3,851)</u>   |
| Net profit from ordinary activities attributable to shareholders | <u><u>172,774</u></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:

|  | <b>As at<br/>31st July, 2004</b><br><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   | <u>(392,533)</u>   |
|  | <u>(116,111)</u>   |
| Contingent liabilities   | <u>469,088</u>   |
|  | <b>Year ended<br/>31st July, 2004</b><br><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

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

## 20. INVENTORIES

|                  | <b>Group</b>    |                 |
|------------------|-----------------|-----------------|
|                  | <b>2004</b>     | <b>2003</b>     |
|                  | <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:

|                    | <b>Group</b>         |                       |
|--------------------|----------------------|-----------------------|
|                    | <b>2004</b>          | <b>2003</b>           |
|                    | <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      | <u>46,392</u>        | <u>43,646</u>         |
|                    | <u><u>95,498</u></u> | <u><u>255,881</u></u> |

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

|                        | <b>Group</b>          |                      | <b>Company</b>       |                      |
|------------------------|-----------------------|----------------------|----------------------|----------------------|
|                        | <b>2004</b>           | <b>2003</b>          | <b>2004</b>          | <b>2003</b>          |
|                        | <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          | <u>—</u>              | <u>20,857</u>        | <u>—</u>             | <u>18,231</u>        |
|                        | <u><u>182,539</u></u> | <u><u>99,575</u></u> | <u><u>22,002</u></u> | <u><u>28,026</u></u> |

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:

|                    | <b>Group</b>          |                       |
|--------------------|-----------------------|-----------------------|
|                    | <b>2004</b>           | <b>2003</b>           |
|                    | <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      | <u>56,085</u>         | <u>54,102</u>         |
|                    | <u><u>125,517</u></u> | <u><u>262,674</u></u> |

**24. INTEREST-BEARING BANK AND OTHER BORROWINGS**

|   | <b>Group</b>         |                 | <b>Company</b>       |                 |
|---|----------------------|-----------------|----------------------|-----------------|
|   | <b>2004</b>          | <b>2003</b>     | <b>2004</b>          | <b>2003</b>     |
|   | <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   | <u>38,810</u>        | <u>7</u>        | <u>38,810</u>        | <u>7</u>        |
|   | 111,913              | 84,517          | 68,810               | 40,007          |
| Portion due within one year or on demand<br>classified as current liabilities   | <u>(73,113)</u>      | <u>(84,517)</u> | <u>(30,010)</u>      | <u>(40,007)</u> |
| Long term portion   | <u><u>38,800</u></u> | <u><u>—</u></u> | <u><u>38,800</u></u> | <u><u>—</u></u> |
| Long term portion of bank and other<br>borrowings repayable within a period of<br>more than one year but not exceeding two<br>years | <u><u>38,800</u></u> | <u><u>—</u></u> | <u><u>38,800</u></u> | <u><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:

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

|  | <b>2004</b>      | <b>2003</b>      |
|--|------------------|------------------|
|  | <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 33 to 34 of the financial statements.

## (b) Company

|   | Share<br>premium<br>account<br><i>HK\$'000</i> | Fixed asset<br>revaluation<br>reserve<br><i>HK\$'000</i> | Investment<br>property<br>revaluation<br>reserve<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--|--|---|--|--------------------------|
| At 1st August, 2002   | 1,119,738                                      | 19,785   | 5,535   | (1,216,803)                              | (71,745)                 |
| Surplus on revaluation of fixed<br>assets on their transfer to<br>investment properties | —  | 47,541   | —   | —  | 47,541                   |
| Deficit on revaluation of investment<br>properties                                      | —  | —  | (1,700)   | —  | (1,700)                  |
| Net profit for the year   | <u>—</u>                                       | <u>—</u>   | <u>—</u>  | <u>73,903</u>                            | <u>73,903</u>            |
| At 31st July, 2003 and at<br>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<br>properties                                      | —  | —  | 12,380  | —  | 12,380                   |
| Released on disposal of an<br>investment property                                       | —  | —  | (1,018)   | —  | (1,018)                  |
| Transfer to accumulated losses upon<br>disposal of a fixed asset                        | —  | (2,291)  | —   | 2,291                                    | —                        |
| Net profit for the year   | <u>—</u>                                       | <u>—</u>   | <u>—</u>  | <u>45,902</u>                            | <u>45,902</u>            |
| 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<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> | 2004<br><i>HK\$'000</i> | 2003<br><i>HK\$'000</i> |
| Within one year                         | 13,297                  | 13,533                  | 6,359                   | 3,569                   |
| In the second to fifth years, inclusive | <u>6,088</u>            | <u>10,448</u>           | <u>4,904</u>            | <u>2,831</u>            |
|   | <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 | <u>39,548</u> | <u>32,462</u> | <u>50</u>  | <u>—</u>  |
|   | <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<br>development costs attributable to properties<br>under development: |                |                |          |          |
| Contracted, but not provided for  | 163,222        | 156,384        | —        | —        |
| Authorised, but not contracted for  | <u>94,470</u>  | <u>94,470</u>  | <u>—</u> | <u>—</u> |
|   | <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.

## 3. UNAUDITED INTERIM RESULTS

The following is the full text of the unaudited condensed consolidated financial statements of the Group for the six months ended 31 January 2005 as extracted from the 2004–2005 interim report of the Group as appropriate. All definitions, page numbers and note references referred to therein are those of the 2004–2005 interim report.

**Condensed Consolidated Profit and Loss Account**

*For the six months ended 31st January, 2005*

|   |              | <b>Six months ended</b> |                    |
|---|--------------|-------------------------|--------------------|
|   |              | <b>31/1/2005</b>        | <b>31/1/2004</b>   |
|   |              | <b>(Unaudited)</b>      | <b>(Unaudited)</b> |
|   | <i>Notes</i> | <i>HK\$'000</i>         | <i>HK\$'000</i>    |
| TURNOVER  | 2            | 286,357                 | 533,662            |
| Cost of sales   |              | <u>(135,946)</u>        | <u>(366,052)</u>   |
| Gross profit  |              | 150,411                 | 167,610            |
| Other revenue and gains   |              | 20,783                  | 17,291             |
| Selling and distribution costs                                      |              | (79,050)                | (82,677)           |
| Administrative expenses   |              | (54,982)                | (52,893)           |
| Other operating expenses, net                                       |              | <u>(9,323)</u>          | <u>(10,466)</u>    |
| PROFIT FROM OPERATING ACTIVITIES                                    | 3            | 27,839                  | 38,865             |
| Finance costs   | 4            | (6,901)                 | (6,385)            |
| Share of profits and losses of associates                           |              | 37,353                  | 105,461            |
| Negative goodwill recognised as income                              |              | 13,657                  | 9,576              |
| Gain/(loss) on deemed disposal of interest in an associate          | 5            | <u>2,421,449</u>        | <u>(5,614)</u>     |
| PROFIT BEFORE TAX   |              | 2,493,397               | 141,903            |
| Tax   | 6            | <u>(14,480)</u>         | <u>(16,213)</u>    |
| PROFIT BEFORE MINORITY INTERESTS                                    |              | 2,478,917               | 125,690            |
| Minority interests  |              | <u>(8,172)</u>          | <u>(4,916)</u>     |
| NET PROFIT FROM ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS |              | <u>2,470,745</u>        | <u>120,774</u>     |
| EARNINGS PER SHARE  | 7            |                         |                    |
| Basic   |              | <u>HK\$1.7185</u>       | <u>HK\$0.0840</u>  |
| Diluted   |              | <u>N/A</u>              | <u>HK\$0.0839</u>  |

**Condensed Consolidated Balance Sheet**

31st January, 2005

|  | <i>Notes</i> | <b>31/1/2005</b><br><b>(Unaudited)</b><br><i>HK\$'000</i> | <b>31/7/2004</b><br><b>(Audited)</b><br><i>HK\$'000</i> |
|--|--------------|---|---|
| <b>NON-CURRENT ASSETS</b>                    |              |   |   |
| Fixed assets                                 |              | 27,161  | 21,241  |
| Investment properties                        |              | 265,680   | 265,680   |
| Properties under development                 |              | 178,481   | 178,150   |
| Goodwill                                     |              | 62,917  | 71,907  |
| Interests in associates                      |              | 1,636,829   | 1,593,166   |
| Long term investment                         | 9            | 411,271   | —   |
| Deferred tax assets                          |              | <u>8,926</u>  | <u>13,398</u>   |
|  |              | <u>2,591,265</u>  | <u>2,143,542</u>  |
| <b>CURRENT ASSETS</b>                        |              |   |   |
| Short term investments                       |              | 27,202  | 24,250  |
| Inventories                                  | 10           | 86,790  | 74,986  |
| Deposits and other receivables               |              | 31,881  | 23,166  |
| Trade receivables                            | 11           | 100,639   | 95,498  |
| Cash and cash equivalents                    |              | <u>213,168</u>  | <u>182,539</u>  |
|  |              | <u>459,680</u>  | <u>400,439</u>  |
| <b>CURRENT LIABILITIES</b>                   |              |   |   |
| Other payables and accruals                  |              | 83,368  | 116,519   |
| Trade and bills payables                     | 12           | 145,257   | 125,517   |
| Tax payable                                  |              | 24,556  | 40,974  |
| Interest-bearing bank and other borrowings   |              | <u>109,482</u>  | <u>73,113</u>   |
|  |              | <u>362,663</u>  | <u>356,123</u>  |
| <b>NET CURRENT ASSETS</b>                    |              | <u>97,017</u>   | <u>44,316</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              | <u>2,688,282</u>  | <u>2,187,858</u>  |
| <b>NON-CURRENT LIABILITIES</b>               |              |   |   |
| Note payable                                 | 13           | 195,000   | 195,000   |
| Interest-bearing bank and other borrowings   |              | <u>70,000</u>   | <u>38,800</u>   |
|  |              | <u>265,000</u>  | <u>233,800</u>  |
| <b>MINORITY INTERESTS</b>                    |              | <u>152,492</u>  | <u>144,320</u>  |
|  |              | <u>2,270,790</u>  | <u>1,809,738</u>  |
| <b>CAPITAL AND RESERVES</b>                  |              |   |   |
| Issued capital                               |              | 718,855   | 718,855   |
| Reserves                                     |              | <u>1,551,935</u>  | <u>1,090,883</u>  |
|  |              | <u>2,270,790</u>  | <u>1,809,738</u>  |

### Condensed Consolidated Statement of Changes in Equity

For the six months ended 31st January, 2005

|   | Issued<br>capital<br>HK\$'000 | Share<br>premium<br>account<br>HK\$'000 | Fixed asset<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------------------------------|---|---|--------------------------------|--------------------------------|--|-----------------------------------|-------------------|
| At 31st July, 2004 and<br>1st August, 2004 (Audited)            | 718,855                       | 1,119,738*                              | 65,340*   | 4,311,182*                     | 57*                            | 28,214*  | (4,433,648)*                      | 1,809,738         |
| Released upon deemed<br>disposal of interest in an<br>associate | —                             | —                                       | —   | (1,993,385)                    | (57)                           | (16,736)                                       | —                                 | (2,010,178)       |
| Transfer upon deemed disposal<br>of interest in an associate    | —                             | —                                       | —   | (358,301)                      | —                              | —  | 358,301                           | —                 |
| Exchange realignments:  |                               |   |   |                                |                                |  |                                   |                   |
| Subsidiaries  | —                             | —                                       | —   | —                              | —                              | (45)   | —                                 | (45)              |
| Associates  | —                             | —                                       | —   | —                              | —                              | 530  | —                                 | 530               |
| Net profit for the period                                       | —                             | —                                       | —   | —                              | —                              | —  | 2,470,745                         | 2,470,745         |
| At 31st January, 2005<br>(Unaudited)                            | <u>718,855</u>                | <u>1,119,738*</u>                       | <u>65,340*</u>                                    | <u>1,959,496*</u>              | <u>—*</u>                      | <u>11,963*</u>                                 | <u>(1,604,602)*</u>               | <u>2,270,790</u>  |

\* These reserve accounts comprise the consolidated reserves of HK\$1,551,935,000 (as at 31st July, 2004: HK\$1,090,883,000) in the condensed consolidated balance sheet.

|   | Issued<br>capital<br>HK\$'000 | Share<br>premium<br>account<br>HK\$'000 | Fixed asset<br>revaluation<br>reserve<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------------------------------|---|---|--|--------------------------------|--------------------------------|--|-----------------------------------|-------------------|
| At 31st July, 2003 and<br>1st August, 2003<br>(Audited)                                     | 718,855                       | 1,119,738                               | 67,326  | —  | 4,335,194                      | 57                             | 28,652   | (4,559,509)                       | 1,710,313         |
| Released upon disposal<br>of investment<br>properties                                       | —                             | —                                       | —   | (735)  | —                              | —                              | —  | —                                 | (735)             |
| Deficit charged to profit<br>and loss account on<br>revaluation of<br>investment properties | —                             | —                                       | —   | 735  | —                              | —                              | —  | —                                 | 735               |
| Released upon deemed<br>disposal of interest in<br>an associate                             | —                             | —                                       | —   | —  | (19,612)                       | —                              | (4)  | —                                 | (19,616)          |
| Released upon<br>deregistration of a<br>subsidiary  | —                             | —                                       | —   | —  | (4,400)                        | —                              | —  | —                                 | (4,400)           |
| Exchange realignments:  |                               |   |   |  |                                |                                |  |                                   |                   |
| Subsidiaries  | —                             | —                                       | —   | —  | —                              | —                              | (470)  | —                                 | (470)             |
| Associates  | —                             | —                                       | —   | —  | —                              | —                              | 475  | —                                 | 475               |
| Net profit for the period   | —                             | —                                       | —   | —  | —                              | —                              | —  | 120,774                           | 120,774           |
| At 31st January, 2004<br>(Unaudited)  | <u>718,855</u>                | <u>1,119,738</u>                        | <u>67,326</u>                                     | <u>—</u>   | <u>4,311,182</u>               | <u>57</u>                      | <u>28,653</u>                                  | <u>(4,438,735)</u>                | <u>1,807,076</u>  |

**Condensed Consolidated Cash Flow Statement***For the six months ended 31st January, 2005*

|   | <b>Six months ended</b> |                       |
|---|-------------------------|-----------------------|
|   | <b>31/1/2005</b>        | <b>31/1/2004</b>      |
|   | <b>(Unaudited)</b>      | <b>(Unaudited)</b>    |
|   | <i>HK\$'000</i>         | <i>HK\$'000</i>       |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | (20,726)                | 21,183                |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES          | (9,358)                 | (3)                   |
| NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES | <u>60,018</u>           | <u>(15,384)</u>       |
| INCREASE IN CASH AND CASH EQUIVALENTS               | 29,934                  | 5,796                 |
| Cash and cash equivalents at beginning of period    | 180,307                 | 97,245                |
| Effect of foreign exchange rate changes, net        | <u>45</u>               | <u>252</u>            |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD          | <u><u>210,286</u></u>   | <u><u>103,293</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS   |                         |                       |
| Cash and bank balances                              | 213,168                 | 104,515               |
| Bank overdrafts                                     | <u>(2,882)</u>          | <u>(1,222)</u>        |
|   | <u><u>210,286</u></u>   | <u><u>103,293</u></u> |

## Condensed Balance Sheet of the Company

31st January, 2005

|  | <i>Note</i> | <b>31/1/2005</b><br><b>(Unaudited)</b><br><i>HK\$'000</i> | <b>31/7/2004</b><br><b>(Audited)</b><br><i>HK\$'000</i> |
|--|-------------|---|---|
| <b>NON-CURRENT ASSETS</b>                    |             |   |   |
| Fixed assets                                 |             | 5,103   | 5,373   |
| Investment properties                        |             | 74,980  | 74,980  |
| Interests in subsidiaries                    |             | 600,703   | 601,424   |
| Interests in associates                      |             | 361,348   | 406,297   |
| Long term investment                         |             | 372,528   | —   |
|  |             | <u>1,414,662</u>  | <u>1,088,074</u>  |
| <b>CURRENT ASSETS</b>                        |             |   |   |
| Short term investments                       |             | 27,202  | 24,250  |
| Deposits and other receivables               |             | 3,204   | 2,263   |
| Trade receivables                            |             | 93,773  | 84,933  |
| Cash and cash equivalents                    |             | 67,394  | 22,002  |
|  |             | <u>191,573</u>  | <u>133,448</u>  |
| <b>CURRENT LIABILITIES</b>                   |             |   |   |
| Other payables and accruals                  |             | 14,673  | 24,012  |
| Trade and bills payables                     |             | 98,103  | 91,633  |
| Tax payable                                  |             | 3,031   | 17,949  |
| Interest-bearing bank and other borrowings   |             | 73,000  | 30,010  |
|  |             | <u>188,807</u>  | <u>163,604</u>  |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>      |             | <u>2,766</u>  | <u>(30,156)</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |             | <u>1,417,428</u>  | <u>1,057,918</u>  |
| <b>NON-CURRENT LIABILITIES</b>               |             |   |   |
| Note payable                                 |             | 195,000   | 195,000   |
| Interest-bearing bank and other borrowings   |             | 70,000  | 38,800  |
|  |             | <u>265,000</u>  | <u>233,800</u>  |
|  |             | <u>1,152,428</u>  | <u>824,118</u>  |
| <b>CAPITAL AND RESERVES</b>                  |             |   |   |
| Issued capital                               |             | 718,855   | 718,855   |
| Reserves                                     | 14          | 433,573   | 105,263   |
|  |             | <u>1,152,428</u>  | <u>824,118</u>  |

## Notes to Condensed Consolidated Financial Statements

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are consistent with those used in the audited financial statements of the Group for the year ended 31st July, 2004.

## 2. TURNOVER AND SEGMENTAL INFORMATION

(a) *Business segments*

The following table presents revenue and profit/(loss) for the Group’s business segments.

|   | Six months ended 31/1/2005<br>(Unaudited) |                           |                             |                             | Six months ended 31/1/2004<br>(Unaudited) |                           |                             |                             |
|---|---|---------------------------|-----------------------------|-----------------------------|---|---------------------------|-----------------------------|-----------------------------|
|   | External sales<br>HK\$’000                | Other revenue<br>HK\$’000 | Segment revenue<br>HK\$’000 | Segment results<br>HK\$’000 | External sales<br>HK\$’000                | Other revenue<br>HK\$’000 | Segment revenue<br>HK\$’000 | Segment results<br>HK\$’000 |
| Manufacture and sale of garments                        | 263,373                                   | 16,198                    | 279,571                     | 15,089                      | 518,008                                   | 5,357                     | 523,365                     | 24,074                      |
| Property investment                                     | 9,697                                     | —                         | 9,697                       | 8,580                       | 7,986                                     | 842                       | 8,828                       | 7,719                       |
| Other operations  | 13,287                                    | —                         | 13,287                      | 2,550                       | 7,668                                     | —                         | 7,668                       | (817)                       |
|   | <u>286,357</u>                            | <u>16,198</u>             | <u>302,555</u>              | 26,219                      | <u>533,662</u>                            | <u>6,199</u>              | <u>539,861</u>              | 30,976                      |
| Interest income and unallocated other revenue and gains |   |                           |                             | 4,585                       |   |                           |                             | 11,092                      |
| Unallocated expenses                                    |   |                           |                             | (2,965)                     |   |                           |                             | (3,203)                     |
| PROFIT FROM OPERATING ACTIVITIES                        |   |                           |                             | <u>27,839</u>               |   |                           |                             | <u>38,865</u>               |

(b) *Geographical segments*

The following table presents revenue for the Group’s geographical segments.

|                          | Six months ended 31/1/2005<br>(Unaudited) |                           |                             | Six months ended 31/1/2004<br>(Unaudited) |                           |                             |
|--------------------------|---|---------------------------|-----------------------------|---|---------------------------|-----------------------------|
|                          | External sales<br>HK\$’000                | Other revenue<br>HK\$’000 | Segment revenue<br>HK\$’000 | External sales<br>HK\$’000                | Other revenue<br>HK\$’000 | Segment revenue<br>HK\$’000 |
| Hong Kong                | 121,590                                   | 730                       | 122,320                     | 138,995                                   | 1,233                     | 140,228                     |
| Mainland China           | 108,254                                   | 15,468                    | 123,722                     | 116,503                                   | 4,966                     | 121,469                     |
| United States of America | 56,513                                    | —                         | 56,513                      | 278,164                                   | —                         | 278,164                     |
|                          | <u>286,357</u>                            | <u>16,198</u>             | <u>302,555</u>              | <u>533,662</u>                            | <u>6,199</u>              | <u>539,861</u>              |

**3. PROFIT FROM OPERATING ACTIVITIES**

This is arrived at after charging/(crediting):

|   | <b>Six months ended</b> |                    |
|---|-------------------------|--------------------|
|   | <b>31/1/2005</b>        | <b>31/1/2004</b>   |
|   | <b>(Unaudited)</b>      | <b>(Unaudited)</b> |
|   | <i>HK\$'000</i>         | <i>HK\$'000</i>    |
| Depreciation  | 4,099                   | 3,156              |
| Amortisation of goodwill on acquisition of subsidiaries | 8,990                   | 8,990              |
| Unrealised gains on short term investments              | (2,952)                 | (5,753)            |
| Gain on disposal of fixed assets                        | (14)                    | —                  |
| Gain on disposal of investment properties               | —                       | (735)              |
| Deficit on revaluation of investment properties         | —                       | 735                |
| Gain on deregistration of a subsidiary                  | —                       | (4,400)            |
|   | <u>          </u>       | <u>          </u>  |

**4. FINANCE COSTS**

The amount represented interest on bank loans, bank overdrafts and other borrowings and note payable which were wholly repayable within five years.

**5. GAIN/(LOSS) ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE**

On 7th December, 2004, Lai Sun Development Company Limited (“LSD”), a then associate of the Group, allotted and issued approximately 9,000 million new ordinary shares of LSD at a price of HK\$0.50 per share to the bondholders of LSD and eSun Holdings Limited as part of the settlement package for the settlement of indebtedness owed by LSD to its bondholders and eSun Holdings Limited. As a result, the Group’s interest in LSD was diluted from approximately 42.25% to approximately 12.42% on the same date, which constituted a deemed disposal by the Group of its interest in LSD. The Group’s share of LSD’s unaudited consolidated net assets was increased by and to approximately HK\$411 million. After taking into account the various reserves released to the unaudited condensed consolidated profit and loss account of the Group of approximately HK\$2,010 million, the Group’s gain on the deemed disposal of its equity interest in LSD amounted to approximately HK\$2,421 million. In addition, an amount of unaudited consolidated capital reserve of the Group of approximately HK\$358 million, which was previously transferred from the Group’s consolidated retained earnings to its consolidated capital reserve upon the redemption by LSD of its preference shares in the prior years, was transferred back to the Group’s unaudited consolidated retained earnings as at 31st January, 2005. As at 31st January, 2005, the remaining 12.42% equity interest in LSD held by the Group was treated as a long term investment in the Group’s unaudited condensed consolidated financial statements for the six months ended 31st January, 2005.

The amount for the six months ended 31st January, 2004 represented the Group’s loss on deemed disposal of its interest in Lai Fung Holdings Limited (“Lai Fung”), an associate of the Group, arising from the exercise of Lai Fung’s share options during that period.

**6. TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

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.

|   | <b>Six months ended</b> |                      |
|---|-------------------------|----------------------|
|   | <b>31/1/2005</b>        | <b>31/1/2004</b>     |
|   | <b>(Unaudited)</b>      | <b>(Unaudited)</b>   |
|   | <i>HK\$'000</i>         | <i>HK\$'000</i>      |
| Group:                                  |                         |                      |
| Current tax — Hong Kong                 | 2,000                   | 4,900                |
| Deferred tax                            | <u>4,472</u>            | <u>4,161</u>         |
|   | <u>6,472</u>            | <u>9,061</u>         |
| Share of tax attributable to associates | <u>8,008</u>            | <u>7,152</u>         |
| Tax charge for the period               | <u><u>14,480</u></u>    | <u><u>16,213</u></u> |

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$2,470,745,000 (2004: HK\$120,774,000) and the weighted average of 1,437,709,710 (2004: 1,437,709,710) ordinary shares in issue during the period.

The diluted earnings per share amount for the six months ended 31st January, 2005 has not been disclosed as no diluting event existed during the period.

For the six months ended 31st January, 2004, the calculation of diluted earnings per share was based on the adjusted net profit attributable to shareholders for the six months ended 31st January, 2004 of HK\$120,562,000 and the weighted average of 1,437,709,710 ordinary shares in issue during the six months ended 31st January, 2004.

The adjusted net profit attributable to shareholders for the six months ended 31st January, 2004 was calculated based on the net profit attributable to shareholders for the six months ended 31st January, 2004 of HK\$120,774,000 less the dilution in the results of 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 six months ended 31st January, 2004.

## 8. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had the following material transactions with related parties:

|  | <i>Notes</i> | <b>Six months ended</b> |                    |
|--|--------------|-------------------------|--------------------|
|  |              | <b>31/1/2005</b>        | <b>31/1/2004</b>   |
|  |              | <b>(Unaudited)</b>      | <b>(Unaudited)</b> |
|  |              | <i>HK\$'000</i>         | <i>HK\$'000</i>    |
| Interest expenses payable to a shareholder | (i)          | 5,938                   | 5,293              |
| Rental expenses payable to associates      | (ii)         | <u>3,256</u>            | <u>3,005</u>       |

*Notes:*

- (i) Interest expenses were charged at the best lending rate quoted by a designated bank in Hong Kong in respect of the note payable and an amount due to Mr. Lim Por Yen (deceased).
- (ii) Rental expenses were payable to the associates pursuant to the respective lease agreements.

- (b) (i) During the period, Mr. Lam Kin Ngok, Peter, an executive director and a substantial shareholder of the Company, has granted a loan of HK\$70 million to the Company which was remained outstanding as at 31st January, 2005 and included in the Group's other borrowings. The loan is unsecured, bears interest at the best lending rate quoted by a designated bank in Hong Kong and is not repayable within one year.
- (ii) Mr. Lim Por Yen (deceased), a former executive director and substantial shareholder of the Company, granted a loan facility up to HK\$100 million to the Company. The facility is unsecured, bears interest at the best lending rate quoted by a designated bank in Hong Kong and will expire on 30th November, 2005. As at 31st January, 2005, the outstanding balance was HK\$33 million (As at 31st July, 2004: HK\$38.8 million) and was included in the Group's other borrowings.

## 9. LONG TERM INVESTMENT

During the period, the Group's equity interest in LSD was reduced from 42.25% to 12.42%, details of which are set out in note 5 to the unaudited condensed consolidated financial statements. Accordingly, the Group's equity interest in LSD was reclassified from interest in an associate to long term investment.

## 10. INVENTORIES

|                  | 31/1/2005<br>(Unaudited)<br>HK\$'000 | 31/7/2004<br>(Audited)<br>HK\$'000 |
|------------------|--------------------------------------|------------------------------------|
| Raw materials    | 8,734                                | 10,225                             |
| Work in progress | 286                                  | 511                                |
| Finished goods   | <u>77,770</u>                        | <u>64,250</u>                      |
|                  | <u>86,790</u>                        | <u>74,986</u>                      |

The carrying amount of the Group's inventories carried at net realisable value included in the above balance was HK\$19,750,000 (As at 31st July, 2004: HK\$27,467,000).

## 11. TRADE RECEIVABLES

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

Crocodile Garments Limited ("CGL") and its subsidiaries (collectively the "CGL Group"), a listed subgroup of the Company, maintain their own sets of credit policies. Other than cash sales made by the CGL Group at their retail outlets, trading terms with wholesale customers are to a large extent on credit, except that advance payments are normally required from new customers. Invoices are normally payable within 30 days from the date of issuance. However, the payment terms are extended up to 90 days for certain well-established customers. Each customer has been assigned of 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 trade receivables, based on invoice date, as at 31st January, 2005 is as follows:

|                      | <b>31/1/2005</b><br><b>(Unaudited)</b><br><i>HK\$'000</i> | <b>31/7/2004</b><br><b>(Audited)</b><br><i>HK\$'000</i> |
|----------------------|---|---|
| Current to 90 days   | 30,250  | 24,553  |
| 91 days to 180 days  | 1,105   | 11,738  |
| 181 days to 365 days | 14,398  | 12,815  |
| Over 365 days        | <u>54,886</u>   | <u>46,392</u>   |
|                      | <u>100,639</u>  | <u>95,498</u>   |

## 12. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at 31st January, 2005 is as follows:

|                      | <b>31/1/2005</b><br><b>(Unaudited)</b><br><i>HK\$'000</i> | <b>31/7/2004</b><br><b>(Audited)</b><br><i>HK\$'000</i> |
|----------------------|---|---|
| Current to 90 days   | 54,135  | 39,044  |
| 91 days to 180 days  | 6,999   | 18,369  |
| 181 days to 365 days | 20,507  | 12,019  |
| Over 365 days        | <u>63,616</u>   | <u>56,085</u>   |
|                      | <u>145,257</u>  | <u>125,517</u>  |

## 13. NOTE PAYABLE

The amount represented the outstanding balance of a note payable to Mr. Lim Por Yen (deceased) (the "Loan Note"). The Loan Note is unsecured, bears interest at prime rate and is repayable on 30th April, 2006.

## 14. RESERVES

### Company

|  | <b>Share<br/>premium<br/>account</b><br><i>HK\$'000</i> | <b>Fixed asset<br/>revaluation<br/>reserve</b><br><i>HK\$'000</i> | <b>Investment<br/>property<br/>revaluation<br/>reserve</b><br><i>HK\$'000</i> | <b>Accumulated<br/>losses</b><br><i>HK\$'000</i> | <b>Total</b><br><i>HK\$'000</i> |
|--|---|---|---|--|---------------------------------|
| At 31st July, 2004 and 1st August, 2004<br>(Audited) | 1,119,738   | 65,035  | 15,197  | (1,094,707)                                      | 105,263                         |
| Net profit for the period                            | <u>—</u>  | <u>—</u>  | <u>—</u>  | <u>328,310</u>                                   | <u>328,310</u>                  |
| At 31st January, 2005 (Unaudited)                    | <u>1,119,738</u>  | <u>65,035</u>   | <u>15,197</u>   | <u>(766,397)</u>                                 | <u>433,573</u>                  |

## 15. POST BALANCE SHEET EVENT

On 25th January, 2005, the CGL Group accepted the tender by an independent third party to purchase certain investment properties of the CGL Group (the "Property") for a cash consideration of HK\$145 million. The transaction constitutes a major transaction (disposal) of the Company under the Rules Governing the Listing of Securities in Hong Kong. Taking into account the aggregate carrying value of the Property of HK\$66 million as included in the unaudited condensed consolidated balance sheet of the Group as at 31st January, 2005, the gain on disposal of the Property before expenses to accrue to the Group's consolidated accounts is estimated to be HK\$79 million. Taking into account the

Group's 54.93% equity interest in CGL, the net gain on disposal of the Property before expenses, after the 45.07% minority interest, to accrue to the Group's consolidated accounts is estimated to be approximately HK\$43.4 million and the consolidated net assets of the Group will be increased by approximately HK\$43.4 million.

The transaction was approved by shareholders of the Company at the general meetings held on 31st March, 2005. The completion of the transaction was scheduled to take place on 31st May, 2005.

#### 4A. PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the pro forma consolidated net tangible assets of the Group assuming that completion of the Rights Issue had taken place on 31 January 2005 in accordance with terms of the Rights Issue as detailed in this prospectus. The purpose of preparing the pro forma consolidated net tangible assets of the Group is to illustrate the effect of the Rights Issue on the Group's consolidated net tangible assets. The pro forma consolidated net tangible assets of the Group was prepared based on the unaudited condensed consolidated accounts of the Group as at 31 January 2005 as set out in the Group's 2004–2005 interim report dated 15 April 2005.

The pro forma consolidated net tangible assets of the Group set out below was prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of the Group following the completion of the Rights Issue.

|   | <b>As at 31<br/>January 2005</b> | <b>Estimated net<br/>proceeds from<br/>the Rights Issue</b> | <b>Pro forma<br/>balance upon<br/>completion of<br/>the Rights<br/>Issue</b> |
|---|----------------------------------|---|--|
|   | <i>HK\$ million</i>              | <i>HK\$ million</i>   | <i>HK\$ million</i>  |
| Consolidated net tangible assets              | 2,955.8<br><i>(Note 1)</i>       | 85.8<br><i>(Note 2)</i>                                     | 3,041.6  |
| Consolidated net tangible assets per<br>Share | HK\$2.06<br><i>(Note 1)</i>      |   | HK\$1.88<br><i>(Note 3)</i>  |

*Notes:*

1. The unaudited consolidated net tangible assets of the Group is based on the unaudited condensed consolidated accounts as set out in the Group's 2004–2005 interim report dated 15th April, 2005. The unaudited consolidated net tangible assets per Share is calculated based on the unaudited consolidated net tangible assets of the Group of approximately HK\$2,955.8 million as at 31 January 2005 and the number of Shares in issue of 1,437,709,710 as at 31 January 2005.
2. The estimated net proceeds from the issue of the Rights Shares are based on the Subscription Price of HK\$0.50 per Rights Share and the number of Rights Shares to be issued of 179,713,713 after deducting the estimated expenses of approximately HK\$4.1 million which includes underwriting commission, legal and professional and other related expenses.
3. The pro forma consolidated net tangible assets per Share is calculated based on the pro forma consolidated net tangible assets of the Group upon completion of the Rights Issue of approximately HK\$3,041.6 million and the number of Shares in issue of 1,617,423,423 upon completion of the Rights Issue.

**4B. LETTER ON THE PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

*The following is the text of a report from Ernst & Young, the reporting accountants, in respect of the pro forma consolidated net tangible assets of the Group as set out under the heading “Pro forma Consolidated Net Tangible Assets of the Group” in this Appendix I, prepared for the purpose of incorporation in this prospectus:*



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

15 June 2005

The Directors  
Lai Sun Garment (International) Limited  
11th Floor Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon  
Hong Kong

Dear Sirs,

**Lai Sun Garment (International) Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)**

We report on the pro forma consolidated net tangible assets of the Group set out on page 75 under the heading of “Pro Forma Consolidated Net Tangible Assets of the Group” in Section 4A of Appendix I to the Company’s prospectus dated 15 June 2005 in connection with the rights issue of 179,713,713 rights shares on the basis of one rights share for every eight existing shares (the “Rights Issue”). The pro forma consolidated net tangible assets has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue might have affected the consolidated net tangible assets of the Group.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the pro forma consolidated net tangible assets of the Group in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma consolidated net tangible assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma consolidated net tangible assets beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted consolidated net tangible assets with the source documents, considering the evidence supporting the adjustments and discussing the pro forma consolidated net tangible assets with the directors of the Company.

Our work did not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the pro forma consolidated net tangible assets of the Group.

The pro forma consolidated net tangible assets of the Group is for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group as at 31 January 2005 or at any future dates.

**OPINION**

In our opinion:

- (a) the pro forma consolidated net tangible assets of the Group has been properly compiled on the basis stated therein;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma consolidated net tangible assets of the Group as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

## 5. INDEBTEDNESS STATEMENT

As at 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding indebtedness of approximately HK\$364.5 million, comprising secured bank loans of approximately HK\$54.3 million which were secured against certain investment properties and certain shares of each of Lai Fung Holdings Limited (“LFH”) and Crocodile Garments Limited (“CGL”) as detailed in the paragraph below, secured trust receipt loans of approximately HK\$5.5 million which were secured by certain investment properties, unsecured trust receipt loans of approximately HK\$4.1 million, secured bank overdrafts of approximately HK\$2.9 million (“Bank Overdrafts”) which were secured by a corporate guarantee executed by CGL, an unsecured note payable of HK\$195 million and unsecured other loans of HK\$102.7 million. Apart from the corporate guarantee executed by CGL for the above mentioned Bank Overdrafts, no other guarantee has been executed by any party to secure any of the other borrowings as mentioned above.

As at 30 April 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 unaudited condensed consolidated accounts of the Group for the six months ended 31 January 2005, were pledged to banks to secure banking facilities granted to the Group. In addition, 115,000,000 ordinary shares of LFH held by the Group and 96,000,000 ordinary shares of CGL held by the Group were pledged to a bank to secure a banking facility granted to the Group.

Save as aforesaid and apart from intra-group liabilities, the Group did not, as at 30 April 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 Company or by third parties) or unsecured, (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured, (iii) mortgages or charges or (iv) guarantees or other contingent liabilities.

As detailed in the Company’s circular dated 7 March 2005, a wholly owned subsidiary of CGL had accepted a tender from an independent third party to purchase an investment property held by this subsidiary. The carrying value of such investment property as at 30 April 2005 was HK\$66 million (such amount was included in the amount of HK\$264.2 million as mentioned in the above second paragraph). Such investment property was pledged to a bank to secure a trust receipt loan facility granted to the Group. The transaction was completed on 31 May 2005. Upon completion of the transaction, the secured trust receipt loan secured by this investment property of HK\$1.8 million as at 30 April 2005 was repaid by the Group.

Save as disclosed above, there was no material change in the indebtedness of the Group since 30 April 2005.

## 6. WORKING CAPITAL STATEMENT

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

## 1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus 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. PARTICULARS OF DIRECTORS

### Executive Directors

**Mr. Lam Kin Ming**, aged 67, is the Chairman of the Company. He has been a Director since October 1987 and has been involved in the management of garment business since 1958. Mr. Lam is also the chairman of Crocodile Garments Limited and deputy chairman of Lai Fung Holdings Limited, and a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited. Mr. Lam is also an alternate director to certain directors of Lai Fung Holdings Limited. Mr. Lam is the elder brother of Mr. Lam Kin Ngok, Peter.

**Mr. Lam Kin Ngok, Peter**, aged 47, is the Deputy Chairman of the Company. He has been a Director since October 1987. Mr. Lam is also the chairman and president of Lai Sun Development Company Limited, the chairman of Lai Fung Holdings Limited and an executive director of eSun Holdings Limited and Crocodile Garments Limited. Mr. Lam has extensive experience in the property and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is the younger brother of Mr. Lam Kin Ming.

**Mr. Shiu Kai Wah**, aged 72, has been a Director since December 1990. He is also a non-executive director of Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments Limited. Mr. Shiu has over 30 years' experience in the management of the garment business.

**Mr. Lee Po On**, aged 49, has been a Director since June 1991. Mr. Lee joined the Group in November 1987. He is also an executive director and the chief executive officer of eSun Holdings Limited and a director of Lai Fung Holdings Limited. He is a Fellow of the Association of Chartered Certified Accountants with over 25 years' financial and commercial experience.

**Mr. Lam Kin Hong, Matthew**, aged 37, was appointed an executive Director in March 2001. He is a legal adviser of the Company and is also an executive director of Crocodile Garments Limited, and an executive director and the executive deputy chairman of Lai Fung Holdings Limited. He attained a Bachelor of Science degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development and corporate finance fields in Hong Kong and the PRC. Mr. Lam is the younger brother of Mr. Lam Kin Ming and Mr. Lam Kin Ngok, Peter.

### Non-Executive Directors

**Madam U Po Chu**, aged 80, has been a Director since December 1990. She is also a non-executive director of Lai Sun Development Company Limited, Crocodile Garments Limited and eSun Holdings Limited, and an executive director of Lai Fung Holdings Limited. Madam U has over 55 years' experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing, and in the late 1980's also became involved in property development and investment. In 2000, Madam U began investing in the catering industry in Hong Kong. Madam U is the mother of Mr. Lam Kin Ngok, Peter.

**Mr. Chiu Wai**, aged 74, has been a Director since October 1987. Mr. Chiu is also a non-executive director of Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments Limited. Mr. Chiu has over 45 years' experience in production management.

**Madam Lai Yuen Fong**, aged 91, has been a director of the Company since May 1992. Madam Lai is the mother of Mr. Lam Kin Ming.

**Miss Lam Wai Kei, Vicky**, aged 32, was appointed the alternate director to Madam Lai Yuen Fong in September 2001. She graduated from the University of Southern California in the United States with bachelor's degrees in business administration and architecture in 1996. She is a member of the American Institute of Architects and prior to joining the Group in August 2000, she worked as an architect and project manager with Skidmore, Owings and Merrill Co. Ltd., an architects firm in New York which participated in various substantial projects such as the New York Stock Exchange, John Kennedy Airport and Times Square Tower. She is currently a vice president of Kingscord Investment Limited, a wholly-owned subsidiary of the Company engaged in property investments in the PRC and Hong Kong. Miss Lam is a daughter of Mr. Lam Kin Ming.

### Independent Non-Executive Directors

**Mr. Wan Yee Hwa, Edward**, aged 68, was appointed an independent non-executive Director in March 2002. Mr. Wan is also an independent non-executive director of Crocodile Garments Limited. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and has been a certified public accountant in Hong Kong since 1961.

**Mr. Leung Shu Yin, William**, aged 55, was appointed an independent non-executive Director in July 2002. Mr. Leung is a certified public accountant, a member of the Hong Kong Securities Institute and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is practising as a practising director of several certified public accountants' firms in Hong Kong and is also an independent non-executive director of Lai Sun Development Company Limited and several companies listed in Hong Kong.

**Mr. Chow Bing Chiu**, aged 54, was appointed an independent non-executive Director in September 2004. He is also an independent non-executive director of Crocodile Garments Limited. Mr. Chow obtained his Bachelor of Law degree in 1980 and qualified as a solicitor in Hong Kong in 1983. He is the sole proprietor of B.C. Chow & Co., Solicitors, in Hong Kong. He is also a China-appointed Attesting Officer.

**3. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION**

|  |   |
|--|---|
| <b>Underwriter</b>   | DBS Asia Capital Limited<br>22nd Floor,<br>The Center,<br>99 Queen's Road Central,<br>Hong Kong   |
| <b>Legal adviser to the Company and legal adviser to the Company in connection with the Rights Issue</b> | Woo, Kwan, Lee & Lo<br>27th Floor,<br>Jardine House,<br>1 Connaught Place, Central,<br>Hong Kong  |
| <b>Auditors of the Company</b>   | Ernst & Young<br><i>Certified Public Accountants</i><br>18th Floor,<br>Two International Finance Centre,<br>8 Finance Street,<br>Central, Hong Kong.                            |
| <b>Registered office</b>   | 11th Floor,<br>Lai Sun Commercial Centre,<br>680 Cheung Sha Wan Road,<br>Kowloon,<br>Hong Kong  |
| <b>Qualified accountant of the Company</b>   | Mr. Tse Kim Lun, <i>FCCA, FHKICPA</i>   |
| <b>Company Secretary of the Company</b>  | Mr. Yeung Kam Hoi, <i>ACIS, ACS, MHKSI</i>  |
| <b>Principal bankers</b>   | The Hongkong and Shanghai Banking Corporation Limited<br>No. 1 Queen's Road Central,<br>Hong Kong<br><br>Hang Seng Bank Limited<br>No. 83 Des Voeux Road, Central,<br>Hong Kong |
| <b>Authorised representatives of the Company</b>   | Mr. Lam Kin Ming<br>Mr. Lam Kin Ngok, Peter   |
| <b>Share Registrar and Transfer Office</b>   | Tengis Limited<br>Ground Floor,<br>Bank of East Asia Harbour View Centre,<br>56 Gloucester Road,<br>Wanchai,<br>Hong Kong   |

**4. SHARE CAPITAL**

(a) The share capital of the Company as at the Record Date is as follows:

| <i>Authorised:</i>  | <i>HK\$</i>           |
|---|-----------------------|
| <u>4,000,000,000</u> Shares   | <u>2,000,000,000</u>  |
| <i>Issued and to be issued as fully paid:</i>   |                       |
| 1,437,709,710 Shares  | 718,854,855.00        |
| <u>179,713,713</u> Rights Shares to be issued   | <u>89,856,856.50</u>  |
| <u>1,617,423,423</u> Shares in issue immediately after the Rights Issue ( <i>Note</i> ) | <u>808,711,711.50</u> |

*Note:* Assuming the Rights Issue becomes unconditional and the Rights Shares are fully subscribed for and no further Shares are issued by the Company between the Record Date and the date of completion of the Rights Issue.

All Shares presently in issue rank pari passu in all respects. The Rights Shares to be allotted and issued pursuant to the Rights Issue will, when issued and fully paid, rank pari passu in all respects with the Shares then in issue.

There are no existing options, warrants or other securities granted or issued by the Company which are convertible into Shares or confer any right to subscribe for Shares. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

**5. DISCLOSURE OF DIRECTORS' INTEREST**

As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested in the following long and short positions in the shares, underlying shares or equity derivatives and debentures of the Company or any associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein (the "Register"), or which were required to be notified to the Company and the Stock Exchange pursuant to the Code for Securities Transactions by Directors adopted by the Company:

**(1) The Company**

| Name of Director    | Personal Interests | Long positions in the shares |                              |                  | Total       | Percentage |
|---------------------|--------------------|------------------------------|------------------------------|------------------|-------------|------------|
|                     |                    | Family Interests             | Corporate Interests          | Capacity         |             |            |
| Lam Kin Ngok, Peter | 110,794,951        | Nil                          | 484,991,750<br><i>(Note)</i> | 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<br><i>(Note)</i> | Beneficial owner | 488,660,750 | 33.99%     |
| Chiu Wai            | 199,600            | 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 50% interest in the issued share capital of Wisdoman Limited which directly owned 484,991,750 shares in the Company.

**(2) Associated Corporations****(a) Lai Fung Holdings Limited (“LFH”)**

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

*Notes:*

- The Company and its wholly-owned subsidiary beneficially owned 2,650,688,037 shares in LFH. 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 50% interest in the issued share capital of Wisdoman Limited which directly owned approximately 33.73% of the issued share capital in the Company.
- Madam U Po Chu is the spouse of Mr. Lim Por Yen (deceased) who held personal interest in 115,156,000 shares in LFH.

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

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

*Note:* The Company 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 50% interest in the issued share capital of Wisdoman Limited which directly owned approximately 33.73% of the issued share capital in the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company were 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.

**6. 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 Group (Note 4):

| Name                                      | Long Positions in the shares Capacity | Nature                 | Number of Shares | Percentage         |
|---|---------------------------------------|------------------------|------------------|--------------------|
| Lam Kin Ngok, Peter                       | Beneficial owner                      | Personal and corporate | 595,786,701      | 41.44%<br>(Note 2) |
| U Po Chu                                  | Beneficial owner                      | Personal and corporate | 488,660,750      | 33.99%<br>(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%<br>(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 50% interest in the issued share capital of Wisdoman Limited which directly owned 484,991,750 Shares.
3. Persons falling into the category of “Other Persons” in Practice Note 5 to the Listing Rules.
4. As at the Latest Practicable Date, as far as is known to the Directors, 中山市沙溪鎮經濟發展總公司 is interested in HK\$17,200,000 registered capital of Crocodile Garments (Zhong Shan) Limited, an indirect subsidiary of the Company, representing 10% of the total registered capital of that company.

## 7. OTHER DIRECTORS' INTEREST

### (a) Service Contracts

As at the Latest Practicable Date, there is no directors' existing or proposed service contract with any member of the Group, which does not expire or is not determinable within one year without payment of compensation other than statutory compensation.

### (b) Directors' Interests in Assets or Contracts

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 Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 July 2004, being the date up to which the latest published audited consolidated accounts of the Group were made:

- (1) CGL as the tenant entered into a tenancy agreement dated 29 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 1 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 29 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%).

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of the Group.

## 8. PROCEDURE OF DEMANDING A POLL

Pursuant to Article 73 of the Articles of Association of the Company, save that a poll is required by the Listing Rules or any other applicable laws, at any general meeting a resolution put to the vote of the meeting 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. A poll may be demanded by:

- (a) the Chairman of the meeting; or
- (b) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) a member or members present in person or by proxy and holding shares 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 shares conferring that right.

## 9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors which is pending or threatened against the Company or any of its subsidiaries.

## 10. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, has been entered into by the Company and its subsidiaries within the two years immediately preceding the issue of this prospectus which are or may be material:

- (a) The Underwriting Agreement details of which is set out in the section headed “Underwriting Arrangements” on page 13 of this prospectus.
- (b) The agreement constituted by the acceptance on 25 January 2005 by a wholly-owned subsidiary of CGL of the tender by a purchaser for the property at Units G-9/9A and G-10 on the Ground Floor and Utility Rooms 213A on the 2nd Floor and 413A on the 4th Floor of Hankow Centre, Nos. 5–15 Hankow Road, Nos. 41–45, 49–51 Peking Road, Nos. 4, 4B Ashley Road and Nos. 1, 1A–B, 1D–E Middle Road, Tsim Sha Tsui, Kowloon, Hong Kong, as disclosed in the circular of the Company dated 7 March 2005 (the “CGL Agreement”).

## 11. MATERIAL ADVERSE CHANGES

Save as disclosed in the paragraph “Business Review and Future Prospects of the Group” in the Letter from the Board regarding the expiration of the quota system for exports of garment and textiles from Hong Kong on 1 January 2005, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 July 2004, being the date up to which the latest audited consolidated accounts of the Group have been made up.

## 12. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned by all of the provisions (other than the penal provisions) of Section 44A and 44B of the Companies Ordinance so far as are applicable.

## 13. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion which is contained in this prospectus:

| <b>Name</b>          | <b>Qualification</b>         |
|----------------------|------------------------------|
| Ernst & Young (“EY”) | Certified Public Accountants |

EY has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of the letter the text of which is set out in Appendix I to this prospectus or reference in the form and context in which it appears.

As at the Latest Practicable Date, EY did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 14. GENERAL

- (a) The estimated amount of expenses in relation to the Rights Issue is approximately HK\$4.1 million which are payable by the Company.
- (b) In the event of any inconsistency, the English language text of this prospectus shall prevail over the Chinese language text.

## 15. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents, having attached thereto the written consent referred to under the heading “Expert and Consent” in this Appendix II, have been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance.

## 16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be 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 prospectus up to 4:00 p.m. on Thursday, 30 June 2005:

- (a) the Underwriting Agreement referred to in the paragraph “Material Contracts” of this Appendix II;
- (b) the CGL Agreement referred to in the paragraph “Material Contracts” of this Appendix II;
- (c) the Memorandum and Articles of Association of the Company;
- (d) the annual report of the Company for the two years ended 31 July 2004;

- (e) the interim report of the Company for the 6 months ended 31 January 2005;
- (f) the letter from Ernst & Young on the pro forma consolidated net tangible assets of the Group as set out in the paragraph 4B of Appendix I to this prospectus;
- (g) the consent letter from Ernst & Young referred to in the paragraph “Expert and Consent” of this Appendix II; and
- (h) the circular of the Company dated 7 March 2005 relating to the CGL Agreement referred to in the paragraph “Material Contracts” in this Appendix II.