



LAI SUN GARMENT

LAI SUN GARMENT (INTERNATIONAL) LIMITED

Interim Report 2003-2004

## **PLACE OF INCORPORATION**

Hong Kong

## **BOARD OF DIRECTORS**

Lim Por Yen (*Chairman and Managing Director*)

Lam Kin Ngok, Peter (*Deputy Chairman*)

Lam Kin Ming (*Deputy Chairman*)

Shiu Kai Wah

Lee Po On

Lam Kin Hong, Matthew

U Po Chu

Chiu Wai

Lai Yuen Fong

Lam Wai Kei, Vicky#

Wan Yee Hwa, Edward\*

Leung Shu Yin, William\*

# *Alternate Director to Madam Lai Yuen Fong*

\* *Independent Non-executive Directors*

## **COMPANY SECRETARY**

Yeung Kam Hoi

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### **Lai Sun Garment (International) Limited**

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*Stock code on Hong Kong Stock Exchange: 191*

## RESULTS

The Board of Directors of Lai Sun Garment (International) Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st January, 2004 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2004

	Notes	Six months ended	
		31/1/2004 (Unaudited) HK\$'000	31/1/2003 (Unaudited) (As restated) HK\$'000
TURNOVER	2	533,662	688,866
Cost of sales		(366,052)	(479,400)
Gross profit		167,610	209,466
Other revenue and gains		17,291	4,683
Administrative expenses		(52,893)	(55,732)
Selling and distribution costs		(82,677)	(101,797)
Other operating expenses, net		(10,466)	(12,240)
<b>2</b> PROFIT FROM OPERATING ACTIVITIES	3	38,865	44,380
Finance costs	4	(6,385)	(6,749)
Share of profits and losses of associates		105,461	(29,945)
Negative goodwill recognised		9,576	5,399
Loss on deemed disposal of interest in an associate		(5,614)	—
Reversal of impairment in value of an associate		—	25,080
PROFIT BEFORE TAX		141,903	38,165
Tax	5	(16,213)	(22,050)
PROFIT BEFORE MINORITY INTERESTS		125,690	16,115
Minority interests		(4,916)	(5,778)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		120,774	10,337
EARNINGS PER SHARE	6		
Basic		8.40 cents	0.72 cent
Diluted		8.39 cents	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

31st January, 2004

		<b>31/1/2004</b> <b>(Unaudited)</b>	31/7/2003 (Audited) (As restated)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>30,041</b>	31,465
Investment properties		<b>245,600</b>	246,900
Properties under development		<b>175,675</b>	176,397
Goodwill on consolidation of subsidiaries		<b>80,897</b>	89,887
Interests in associates		<b>1,590,933</b>	1,507,801
Deferred tax assets		<b>5,882</b>	10,043
		<b>2,129,028</b>	2,062,493
<b>CURRENT ASSETS</b>			
Short term investments		<b>25,390</b>	19,637
Inventories	8	<b>88,665</b>	92,033
Deposits and other receivables		<b>22,024</b>	22,872
Trade receivables and bill receivables	9	<b>226,517</b>	255,881
Cash and cash equivalents		<b>104,515</b>	99,575
		<b>467,111</b>	489,998
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<b>86,637</b>	96,395
Trade payables and bill payables	10	<b>257,675</b>	275,838
Tax payable		<b>32,941</b>	46,069
Interest-bearing bank and other borrowings		<b>74,410</b>	84,517
		<b>451,663</b>	502,819
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>15,448</b>	(12,821)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,144,476</b>	2,049,672
<b>NON-CURRENT LIABILITIES</b>			
Note payable	11	<b>210,000</b>	210,000
Long term deposits received		<b>—</b>	6,875
		<b>210,000</b>	216,875
<b>MINORITY INTERESTS</b>		<b>127,400</b>	122,484
		<b>1,807,076</b>	1,710,313
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>718,855</b>	718,855
Reserves		<b>1,088,221</b>	991,458
		<b>1,807,076</b>	1,710,313

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2004

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st July, 2003 and 1st August, 2003									
As previously reported (Audited)	718,855	1,119,738	67,326	—	4,418,975	57	28,652	(4,495,336)	1,858,267
Prior year adjustments (Note 1)	—	—	—	—	(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
Release upon disposal of investment properties	—	—	—	(735)	—	—	—	—	(735)
Deficits charged to profit and loss account on revaluation of investment properties	—	—	—	735	—	—	—	—	735
Release upon deemed disposal of interest in an associate	—	—	—	—	(19,612)	—	(4)	—	(19,616)
Release upon deregistration of a 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 (Unaudited)	718,855	1,119,738*	67,326*	—*	4,311,182*	57*	28,653*	(4,438,735)*	1,807,076

\* These reserve accounts comprise consolidated reserves in a net credit balance of HK\$1,088,221,000 (as at 31st July, 2003 (as restated): HK\$991,458,000) in the condensed consolidated balance sheet.

	Issued capital HK\$'000	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st July, 2002 and 1st August, 2002									
As previously reported (Audited)	718,855	1,119,738	19,785	—	4,420,547	57	28,908	(4,466,137)	1,841,753
Prior year adjustments (Note 1)	—	—	—	—	(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 realignments:									
Subsidiaries	—	—	—	—	—	—	(47)	—	(47)
Associates	—	—	—	—	—	—	(1,544)	—	(1,544)
Net profit for the period	—	—	—	—	—	—	—	10,337	10,337
At 31st January, 2003 (Unaudited)	718,855	1,119,738	19,785	—	4,336,766	57	27,317	(4,465,929)	1,756,589

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2004

	Six months ended	
	31/1/2004	31/1/2003
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>21,183</b>	17,492
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(3)</b>	(8,930)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>(15,384)</b>	1,616
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INCREASE IN CASH AND CASH EQUIVALENTS	<b>5,796</b>	10,178
Cash and cash equivalents at beginning of period	<b>97,245</b>	95,173
Exchange realignments	<b>252</b>	31
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>103,293</b>	105,382
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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>104,515</b>	79,212
Non-pledged time deposits with original maturity of less than three months when acquired	—	29,122
Bank overdrafts	<b>(1,222)</b>	(2,952)
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	<b>103,293</b>	105,382
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## 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 (“SSAP”) 25 “Interim financial reporting”, issued by the Hong Kong Society of Accountants. The condensed consolidated financial statements have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31st July, 2003, except for the revised SSAP 12 “Income Taxes” and the new interpretations relating to which have been retrospectively adopted for the first time in the preparation of the current period’s condensed consolidated financial statements.

SSAP 12 (Revised) prescribes the basis for 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 carry forward of unused tax losses (deferred tax).

Due to the adoption of SSAP 12 (Revised) in the current period, prior year adjustments were made to recognise the deferred tax assets and liabilities in relation to (i) the differences between capital allowance for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences, which 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; (ii) the fair value adjustments arising from the acquisitions of an associate; and (iii) tax losses arising in the prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised. Certain comparative amounts of the audited consolidated balance sheet as at 31st July, 2003 have been restated to conform with the current period’s presentation.

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The shareholders’ equity as at 1st August, 2003 was restated and decreased by HK\$147,954,000 which comprised decrease in capital reserve of HK\$83,781,000 and increase in accumulated losses of HK\$64,173,000 (as at 1st August, 2002: the shareholders’ equity decreased by HK\$93,910,000, which comprised decrease in capital reserve of HK\$83,781,000 and increase in accumulated losses of HK\$10,129,000). The effect of change to net profit attributable to shareholders for the six months ended 31st January, 2003 was a loss effect of HK\$2,022,000.

## 2. SEGMENTAL INFORMATION

### (a) Business segments

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

	Six months ended 31/1/2004 (Unaudited)				Six months ended 31/1/2003 (Unaudited)			
	External sales	Other revenue	Segment revenue	Segment results	External sales	Other revenue	Segment revenue	Segment results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sale of garments	518,008	5,357	523,365	24,074	675,360	3,560	678,920	45,948
Property investment	7,986	842	8,828	7,719	6,990	104	7,094	4,058
Other operations	7,668	—	7,668	(817)	6,516	—	6,516	(3,745)
	<u>533,662</u>	<u>6,199</u>	<u>539,861</u>	<u>30,976</u>	<u>688,866</u>	<u>3,664</u>	<u>692,530</u>	<u>46,261</u>
Interest income and unallocated other revenue and gains				11,092				1,019
Unallocated expenses				(3,203)				(2,900)
PROFIT FROM OPERATING ACTIVITIES				<u>38,865</u>				<u>44,380</u>

### (b) Geographical segments

The following table presents revenue for the Group's geographical segments:

	Six months ended 31/1/2004 (Unaudited)			Six months ended 31/1/2003 (Unaudited)		
	External sales	Other revenue	Segment revenue	External sales	Other revenue	Segment revenue
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	138,995	1,233	140,228	159,993	557	160,550
Mainland of China	116,503	4,966	121,469	128,686	3,107	131,793
United States of America	278,164	—	278,164	400,187	—	400,187
	<u>533,662</u>	<u>6,199</u>	<u>539,861</u>	<u>688,866</u>	<u>3,664</u>	<u>692,530</u>



### 3. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Six months ended	
	31/1/2004 (Unaudited) HK\$'000	31/1/2003 (Unaudited) HK\$'000
Depreciation	3,156	3,726
Amortisation of goodwill on acquisition of subsidiaries	8,990	8,990
Unrealised losses/(gains) on short term investments	(5,753)	1,282
Gain on disposal of investment properties	(735)	—
Deficits on revaluation of investment properties	735	—
Gain on deregistration of a subsidiary	(4,400)	—

### 4. FINANCE COSTS

The amount represented interest on bank loans, overdrafts and other borrowings, including the Loan Note as referred to in note 11 below, which were wholly repayable within five years.

### 5. 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 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.

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	Six months ended	
	31/1/2004 (Unaudited) HK\$'000	31/1/2003 (Unaudited) (Restated) HK\$'000
Company and subsidiaries:		
Current tax-Hong Kong	4,900	8,900
Deferred tax	4,161	1,499
	<b>9,061</b>	10,399
Associates:		
Hong Kong	—	6,239
Outside Hong Kong	7,152	5,412
	<b>7,152</b>	11,651
Tax charge for the period	<b>16,213</b>	22,050

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$120,774,000 (2003 (as restated): HK\$10,337,000) and the number of 1,437,709,710 (2003: 1,437,709,710) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders for the period of HK\$120,562,000 and the number of 1,437,709,710 ordinary shares in issue during the period.

The adjusted net profit attributable to shareholders is calculated based on the net profit attributable to shareholders for the period of HK\$120,774,000 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 period.

The diluted earnings per share for the prior period had not been calculated because there were no diluting events during that period.

## 7. RELATED PARTY TRANSACTIONS

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

	Notes	Six months ended	
		31/1/2004 (Unaudited) HK\$'000	31/1/2003 (Unaudited) HK\$'000
Interest expense payable to a shareholder	(i)	5,293	5,364
Rental expenses payable to associates	(ii)	3,005	4,397

Notes:

- (i) Details of the Loan Note payable to a shareholder are included in note 11.
- (ii) Rental expenses were payable to the associates pursuant to the respective lease agreements.

## 8. INVENTORIES

	31/1/2004 (Unaudited) HK\$'000	31/7/2003 (Audited) HK\$'000
Raw materials	11,522	6,145
Work in progress	528	133
Finished goods	76,615	85,755
	<b>88,665</b>	<b>92,033</b>

The total carrying amount of the Group's inventories included in the above which were carried at net realisable values was HK\$34,440,000 (31st July, 2003: HK\$39,471,000).

## 9. TRADE RECEIVABLES AND BILL RECEIVABLES

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 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 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 and bill receivables, based on invoice due date, as at 31st January, 2004 is as follows:

	<b>31/1/2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31/7/2003 (Audited) HK\$'000
Current to 90 days	<b>133,704</b>	171,123
91 days to 180 days	<b>5,158</b>	5,535
181 days to 365 days	<b>8,702</b>	35,577
Over 365 days	<b>78,953</b>	43,646
	<b>226,517</b>	255,881

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## 10. TRADE PAYABLES AND BILL PAYABLES

An aged analysis of trade payables and bill payables as at 31st January, 2004 is as follows:

	<b>31/1/2004</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31/7/2003 (Audited) HK\$'000
Current to 90 days	<b>147,550</b>	179,912
91 days to 180 days	<b>14,337</b>	4,943
181 days to 365 days	<b>6,893</b>	36,546
Over 365 days	<b>88,895</b>	54,437
	<b>257,675</b>	275,838

## 11. NOTE PAYABLE

The amount represented the outstanding balance of a note payable to Mr. Lim Por Yen (the "Loan Note"), a substantial shareholder (as defined in the Listing Rules) and an executive director of the Company. The Loan Note is unsecured, bears interest at the best lending rate quoted by a designated bank in Hong Kong and is due for repayment on 30th April, 2005.

## 12. COMPARATIVE AMOUNTS

As explained in note 1 to the condensed consolidated financial statements, due to the adoption of a revised SSAP during the current period, 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 certain comparative amounts have been restated to conform with the current period's presentation.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the financial year ending 31st July, 2004. No interim dividend was declared in respect of the previous corresponding period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group reported an unaudited consolidated net profit from ordinary activities attributable to shareholders of HK\$120.8 million for the half-year under review. This was a significant improvement on the profit of HK\$10.3 million for the previous corresponding period as restated. The bulk of the profit was derived from the contributions from both Lai Fung Holdings Limited (“Lai Fung”), the 45%-owned associate, and the garment operation of the Company. A revaluation surplus in respect of certain property projects of Lai Fung attributable to the Group of HK\$71.9 million was credited to the consolidated profit and loss account of the Group for the period under review since the revaluation deficits attributable to the Group in respect of these projects had been charged to the Group’s consolidated profit and loss account in previous years.

Turnover for the period fell by around 22.5% to HK\$533.7 million from HK\$688.9 million mainly due to a decrease in revenue derived from manufacture and sale of garments of the Group, although the garment operation of the Company remained profitable during the period under review.

Lai Sun Development Company Limited (“LSD”) reported an unaudited consolidated net loss of HK\$167.1 million for the half-year under review, compared with the net loss of HK\$115.5 million for the previous corresponding period as restated. The loss for the period was largely attributable to the disposal of Causeway Bay Plaza 1 and LSD’s share of the loss of its associate, eSun Holdings Limited (“eSun”). On disposal of the aforesaid property, LSD incurred a loss of approximately HK\$273 million which was partially offset by a release upon the disposal of the property of the negative goodwill arising from the acquisition of the property amounting to approximately HK\$150 million. As the carrying value of the Group’s interest in LSD had been fully written down in the previous year, share of LSD’s losses for the period under review was not required to be taken up by the Company in its consolidated profit and loss account.

Following the disposal of two investment properties, namely, Lai Sun Yuen Long Centre and Causeway Bay Plaza 1, rental income of LSD decreased by 24% compared with the previous corresponding period. Average occupancy rate of LSD’s investment property portfolio, however, remained at a relatively high 94% during the period. Progress in the construction works for Furama Court and Rolling Hills Phase II, in which LSD holds a 50% interest, was on schedule and pre-sale of both projects will commence in 2004. The development project at the former Furama Hotel site at 1 Connaught Road Central, in which LSD has a 10% interest, has been progressing as planned, with an expected completion date of mid-2005.

LSD’s hotel interests in Vietnam, namely the Caravelle Hotel in Ho Chi Minh City and the Furama Resort Danang continued to report improved performance. The Ritz-Carlton Hong Kong and the Majestic Hotel also recorded better results in the second half of 2003 following the subsidence of the SARS outbreak.

eSun, the 42.54%-owned associate of LSD, reported an audited consolidated net loss attributable to shareholders of HK\$92.7 million for the year ended 31st December, 2003. This result was attributed to the loss in interest income from a wholly-owned subsidiary of LSD on the debt of HK\$1,500 million due from that company to eSun and the loss recorded by the satellite television operation of eSun.

Media Asia Holdings Ltd. ("MAH"), in which eSun holds a 49.77% interest, launched two sequels to its highly acclaimed production, "Infernal Affairs", towards the end of 2003. Box-office takings for both films were satisfactory.

East Asia Entertainment Limited ("EAE"), the entertainment operation of eSun, was active during the second half of 2003 and reported a profit of HK\$1.56 million, compared with the loss of HK\$25.5 million for the previous corresponding period. With the exception of two shows in which minor losses had been incurred, positive results had been recorded for the remaining thirteen events.

Lai Fung, in which the Company holds a 45.13% interest, reported an unaudited consolidated net profit attributable to shareholders of HK\$50.1 million for the half-year under review, compared with the net profit of HK\$12.7 million for the previous year as restated. The bulk of the profit was attributable to a recovery of impairment loss in interest in a jointly-controlled entity and reduction in finance costs. Lai Fung successfully negotiated for the exchange of its interest in a jointly-controlled entity in Zhongshan for a new plot of land in another location in Zhongshan. The gain arising from this transaction was approximately HK\$42.6 million.

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Lai Fung recorded an increase of 126% in turnover to HK\$143.1 million due to the pre-sale of Phase I of Regents Park in the Changning District of Shanghai and Phase III of Eastern Place in Guangzhou towards the end of 2003. Gross profit also increased by 20% to HK\$60.0 million from HK\$50.2 million recorded for the previous corresponding period. For the period under review, 77 units of Regents Park and 126 units of Eastern Place were sold. Rental income from Hong Kong Plaza in Shanghai had also recovered from the decline caused by the outbreak of SARS during the first half of 2003.

Internal fitting-out work at another important project of Lai Fung in Guangzhou, May Flower Plaza, is now in progress. This 13-storey office and commercial complex with a four-storey basement is scheduled for opening in late 2004.

Crocodile Garments Limited ("CGL") reported an unaudited consolidated profit of HK\$10.9 million for the half-year under review, which was lower than the net profit of HK\$12.8 million in the previous year as restated. Turnover decreased by 13% to HK\$245.4 million and gross profit margin also fell from 51% to 48%. CGL managed to maintain its profitability through cost control, with selling and distribution costs cut by 19% and administrative expenses by 21%.

The performance of CGL's operation in Hong Kong was satisfactory. In the Mainland, CGL was confronted by the increasing number of brands and intense competition. Plans were on hand to further expand the existing sales network through additional incentives to the exclusive franchisees of CGL.

## Prospects

The local economy and the stock market staged a remarkable rebound towards the end of 2003. Undoubtedly, this provided a welcome boost to market sentiment, followed by noticeable improvement in consumer spending. The favourable impact of the increasing inbound tourists from the Mainland on the consumer market cannot be ignored and it is anticipated this effect will persist at least in the short-term. This should benefit more directly the retail and hotel operations of the Group.

LSD anticipates a consolidation of local real estate prices at prevailing levels as well as office-commercial rentals, to which LSD is heavily exposed. To complement its hotel ownership activities, LSD plans to further develop its hotel management business.

LSD is currently in a period of informal standstill and one of its main priorities will be to complete its negotiations with all of its creditors for a consensual debt restructuring agreement. Negotiations with its creditors have reached a fairly advanced stage and LSD is hopeful of reaching a solution in 2004.

eSun will press on with its business development plans for its satellite television operation while it awaits approval for a downlink licence in the Mainland. Programmes of this operation is being offered to subscribers of NOW Broadband TV of PCCW Limited in Hong Kong for a monthly fee and the response so far has been encouraging.

MAH has drawn up a tight production schedule of eight to ten films for the year 2004. It is anticipated that the signing of the Closer Economic Partnership Arrangement between the Mainland and Hong Kong in 2003 and further relaxation of travel restrictions for Mainland residents to visit Hong Kong will have a favourable impact on the operations of MAH and EAE, the latter being involved in the production of local entertainment shows.

Lai Fung expects its investment property, Hong Kong Plaza in Shanghai, to continue to contribute stable rental income. The scheduled pre-sale and sale of completed developments, including Phase I of Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou should further increase turnover and profitability.

With the possible improvement in infrastructure in the proximity of Zhongshan, Lai Fung has a positive view on the property market in Zhongshan and will seriously consider new investment opportunities in the city. It will, however, maintain its expansion focus on Shanghai and Guangzhou, as it actively explores opportunities to replenish its landbank.

With the projected increase in inbound tourists from the Mainland, CGL is optimistic about the prospects for its operations in Hong Kong. It is, therefore, considering the feasibility of increasing the number of retail shops in Hong Kong. At the same time, preparations are underway for the launch of the new "Crocodile" mark in late 2004.

## Liquidity and Financial Resources

As at 31st January, 2004, total bank and other borrowings, inclusive of the note payable to a shareholder, and net assets of the Group amounted to HK\$284 million and HK\$1,807 million, respectively. The debt to equity ratio as expressed as a percentage of total bank and other borrowings to net assets as at that date was approximately 15.7%.

Substantially all of the total bank and other borrowings of HK\$74 million as at 31st January, 2004 were repayable or renewable within one year. The note payable to a shareholder has a maturity date on 30th April, 2005.

The Group's bank borrowings were mainly denominated in HK dollar and US dollar thereby avoiding any unnecessary exchange risk exposure. The majority of the bank and other borrowings was maintained as floating rate debts. Attention will be paid to the interest rate movements. Hedging instruments will be employed when necessary to hedge against unanticipated interest rate volatilities.

As at 31st January, 2004, certain investment properties with carrying value of approximately HK\$244 million and certain land and building with carrying value of approximately HK\$6 million were pledged to banks to secure banking facilities granted to the Group. In addition, 115,000,000 ordinary shares of Lai Fung and 96,000,000 ordinary shares of CGL held by the Group were pledged to a bank to secure banking facilities granted to the Group.

Cash and bank balances and short-term listed investments held by the Group as at 31st January, 2004 amounted to HK\$105 million and HK\$25 million, respectively, which was considered adequate to cover the working capital requirement of the Group.

Most of the Group's sales and purchases were mainly conducted in US dollar, HK dollar, Renminbi and euro. Foreign purchases in euro were mostly covered with forward exchange contracts in order to minimise the exchange risk.

#### **Employees and Remuneration Policies**

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The Group employed a total of approximately 1,000 (31st July, 2003: 1,000) employees as at 31st January, 2004. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

#### **Contingent Liabilities**

As at 31st January, 2004, the Company and the Group did not have any material contingent liabilities. There is no material change in contingent liabilities since the last annual report date.

## DIRECTORS' INTERESTS

As at 31st January, 2004, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company (the "Code") to be notified to the Company and the Stock Exchange:

### (1) The Company

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

#### Notes:

1. Mr. Lim Por Yen was deemed to be interested in 3,669,000 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.
2. Madam U Po Chu was deemed to be interested in 484,991,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 488,660,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.



## (2) Associated Corporations

### (a) *Lai Sun Development Company Limited ("LSD")*

Name of Director	Long positions in shares of LSD			Capacity	Total	Percentage
	Personal Interests	Family Interests	Corporate Interests			
Lim Por Yen	197,859,550	633,400 <i>(Note 1)</i>	1,582,869,192 <i>(Note 2)</i>	Beneficial owner	1,781,362,142	47.55%
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Beneficial owner	10,099,585	0.27%
U Po Chu	633,400	1,780,728,742 <i>(Note 3)</i>	Nil	Beneficial owner	1,781,362,142	47.55%
Chiu Wai	195,500	Nil	Nil	Beneficial owner	195,500	0.01%
Lai Yuen Fong	Nil	1,781,362,142 <i>(Note 4)</i>	Nil	Beneficial owner	1,781,362,142	47.55%
Lam Wai Kei, Vicky	100,000	Nil	Nil	Beneficial owner	100,000	0.0027%

#### Notes:

1. Mr. Lim Por Yen was deemed to be interested in 633,400 shares in LSD by virtue of the interest in such shares of his spouse, Madam U Po Chu.
2. The Company and its wholly-owned subsidiary beneficially owned 1,582,869,192 ordinary shares in LSD. Mr. Lim Por Yen was deemed to be interested in such shares in LSD by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
3. Madam U Po Chu was deemed to be interested in 1,780,728,742 shares in LSD by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
4. Madam Lai Yuen Fong was deemed to be interested in 1,781,362,142 shares in LSD by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

(b) **eSun Holdings Limited (“eSun”)**

Name of Director	Long positions in shares of eSun				Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity		
Lim Por Yen	Nil	Nil	285,512,791 (Note 1)	Beneficial owner	285,512,791	42.54%
Lee Po On	5,195,934	Nil	Nil	Beneficial owner	5,195,934	0.77%
U Po Chu	Nil	285,512,791 (Note 2)	Nil	Beneficial owner	285,512,791	42.54%
Lai Yuen Fong	Nil	285,512,791 (Note 3)	Nil	Beneficial owner	285,512,791	42.54%

Notes:

1. eSun is an associated corporation of the Company as LSD and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in eSun. The Company and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of LSD. Mr. Lim Por Yen was deemed to be interested in such shares in eSun by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
2. Madam U Po Chu was deemed to be interested in 285,512,791 shares in eSun by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 285,512,791 shares in eSun by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

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(c) **Lai Fung Holdings Limited (“Lai Fung”)**

Name of Director	Long positions in shares of Lai Fung				Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity		
Lim Por Yen	92,124,800	Nil	2,120,550,431 (Note 1)	Beneficial owner	2,212,675,231	47.09%
U Po Chu	Nil	2,212,675,231 (Note 2)	Nil	Beneficial owner	2,212,675,231	47.09%
Lai Yuen Fong	Nil	2,212,675,231 (Note 3)	Nil	Beneficial owner	2,212,675,231	47.09%

Notes:

1. The Company and its wholly-owned subsidiary beneficially owned 2,120,550,431 shares in Lai Fung. Mr. Lim Por Yen was deemed to be interested in such shares in Lai Fung by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
2. Madam U Po Chu was deemed to be interested in 2,212,675,231 shares in Lai Fung by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 2,212,675,231 shares in Lai Fung by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

**(d) Crocodile Garments Limited ("CGL")**

Name of Director	Long positions in shares of CGL					Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity			
Lim Por Yen	Nil	Nil	338,982,809 (Note 1)	Beneficial owner	338,982,809	54.93%	
U Po Chu	Nil	338,982,809 (Note 2)	Nil	Beneficial owner	338,982,809	54.93%	
Lai Yuen Fong	Nil	338,982,809 (Note 3)	Nil	Beneficial owner	338,982,809	54.93%	

Notes:

1. The Company and its wholly-owned subsidiary beneficially owned 338,982,809 shares in CGL. Mr. Lim Por Yen was deemed to be interested in such shares in CGL by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.
2. Madam U Po Chu was deemed to be interested in 338,982,809 shares in CGL by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
3. Madam Lai Yuen Fong was deemed to be interested in 338,982,809 shares in CGL by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, as at 31st January, 2004, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st January, 2004, the following persons, some of whom are Directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lim Por Yen	Beneficial owner	Personal and Family	488,660,750	33.99% (Note 2)
Lam Kin Ngok, Peter	Beneficial owner	Personal	110,794,951	7.71% (Note 3)
U Po Chu	Beneficial owner	Personal and Family	488,660,750	33.99% (Note 4)
Lai Yuen Fong	Beneficial owner	Family	488,660,750	33.99% (Note 5)
Far East Consortium International Limited	Beneficial owner	Corporate	108,697,000	7.56% (Note 3)

### Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest, respectively.
2. Mr. Lim Por Yen was deemed to be interested in 3,669,000 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.
3. Persons falling into the category of "Other Persons" in Practice Note 5 to the Rules Governing the Listing of Securities on the Stock Exchange.
4. Madam U Po Chu was deemed to be interested in 484,991,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
5. Madam Lai Yuen Fong was deemed to be interested in 488,660,750 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest in the long or short positions in the shares and underlying shares of equity derivatives of the Company as at 31st January, 2004.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## **CODE OF BEST PRACTICE**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

In accordance with the requirements of the Code of Best Practice, the Company established an audit committee in March 2000 which comprises the two independent non-executive Directors of the Company. The Interim Report has been reviewed by the audit committee of the Company.

By Order of the Board

**Lim Por Yen**

*Chairman and Managing Director*

Hong Kong, 16th April, 2004