THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

7 March 2006

The Listing Appeals Committee of The Stock Exchange of Hong Kong Limited (the "Listing Appeals Committee") censures the following parties for breaching the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange Listing Rules"):

1. **Lai Sun Garment (International) Limited ("LSG");**
2. **Crocodile Garments Limited ("CGL");**
3. **Mr Lam Kin Ming (an executive director of both LSG and CGL); and**
4. **Mr Lam Kin Hong, Matthew (an executive director of CGL).**

Further, the Listing Appeals Committee criticises the following parties for breaching the Exchange Listing Rules:

1. **Mr Lam Kin Ngok, Peter (an executive director of both LSG and CGL); and**
2. **Mr Lam Kin Ko, Stewart (a former executive director of CGL who resigned on 1 April 2004).**

On 18 May 2004, the Listing Committee conducted a hearing (i.e. the first instance disciplinary hearing) into the conduct of LSG, CGL, Mr Lam Kin Ming, Mr Lam Kin Hong, Matthew, Mr Lam Kin Ngok, Peter and Mr Lam Kin Ko, Stewart (collectively, the "Relevant Parties"), the late Mr Lim Por Yen (the former Chairman and executive director of both LSG and CGL) ("Mr Lim") and others.

On 12 January 2005, the Listing Committee of the Exchange conducted a disciplinary (review) hearing on the application by, among others, the Relevant Parties for a review of the decisions of and the sanctions imposed by the Listing Committee at first instance.

On 24 November 2005, the Listing Appeals Committee conducted a further disciplinary (review) hearing on the application of the Relevant Parties for a review of the decisions reached and sanctions imposed at the earlier disciplinary (review) hearing.

<u>The Decision</u>:

At the first instance disciplinary hearing held on 18 May 2004, the Listing Committee concluded, among other things, that:

(i) Each of CGL and LSG breached the then Rule 14.26(6)(a) of the Exchange Listing Rules in failing to obtain prior independent shareholders' vote in a general meeting in relation to the financial assistance granted to the late Mr Lim which was not granted on normal commercial terms in the ordinary and usual course of business of CGL or LSG;

(ii) Each of CGL and LSG breached the then Rule 14.29 of the Exchange Listing Rules in failing to notify the Exchange as soon as possible after the terms of the connected transactions have been agreed and despatch the relevant circular to its shareholders and the Exchange within 21 days of such notification;

(iii) Each of Mr Lam Kin Ming and Mr Lam King Ngok, Peter, breached his Declaration and Undertaking with regard to Directors given by each of them to the Exchange in the form set out in Appendix 5B to the Exchange Listing Rules (the "Director's Undertaking") to use his best endeavours to procure LSG's compliance with the Exchange Listing Rules; and

(iv) Each of Mr Lam Kin Ming, Mr Lam Kin Ngok, Peter, Mr Lam Kin Ko, Stewart and Mr Lam Kin Hong, Matthew breached his Director's Undertaking to use his best endeavours to procure CGL's compliance with the Exchange Listing Rules.

The Listing Committee at first instance decided to impose the following sanctions on the Relevant Parties:

- a **public censure** on LSG, CGL, Mr Lam Kin Ming and Mr Lam Kin Hong, Matthew for their respective breaches mentioned in (i) to (iv) above; and

- a **public statement which involves criticism** on Mr Lam Kin Ngok, Peter and Mr Lam Kin Ko, Stewart for their respective breaches mentioned in (iii) and (iv) above.

In arriving at its decision on the sanctions against the respective directors for breaching the Director's Undertaking, the Listing Committee took into account the fact that Mr Lam Kin Ming and Mr Lam Kin Hong, Matthew had personal knowledge of the Scheme and were instrumental in effecting the fund transfers.

At the disciplinary (review) hearing held on 12 January 2005 and a further meeting held on 8 April 2005, the Listing Committee upheld the decisions of and the sanctions imposed by the Listing Committee at first instance in respect of the Relevant Parties.

At the further disciplinary (review) hearing on 24 November 2005, the Listing Appeals Committee upheld the decisions reached at the earlier disciplinary (review) hearing and the sanctions imposed on the Relevant Parties.

Facts:

The disciplinary hearing was in connection with alleged breaches of the Exchange Listing Rules arising from a scheme which involved a series of fund transfers of an aggregate amount of RMB36.5 million (the "Scheme") from Crocodile Garments (Zhong Shan) Limited ("Crocodile Zhongshan") to Guangzhou Xinyi Properties Management Co. Ltd. ("Xinyi"), Xinyi to Guangzhou Tianhe Baito Culture & Entertainment Square Co. Ltd. ("Tianhe"), and the late Mr Lim to CGL. In or around November 1999, Tianhe required additional funding for the development of the Guangzhou Tianhe Entertainment Plaza in Guangzhou, PRC (the "Project"). The late Mr Lim agreed to provide the funding required by Tianhe. He had discussions with the senior management of CGL and LSG as to how this funding requirement was to be met.

LSG was the parent company and a substantial shareholder of CGL. The late Mr Lim and his family were substantial shareholders of LSG and CGL. By reason of his directorship in LSG and CGL and his shareholdings in these two companies, the late Mr Lim was a connected person of LSG and CGL.

In brief, the Scheme comprised the following series of fund transfers:

1. During the period from January 2000 to September 2000, Crocodile Zhongshan, a non-wholly owned subsidiary of CGL and in turn LSG, made eight remittances totalling RMB36.5 million to Xinyi, the project manager of the Project appointed by Tianhe.

   Xinyi, a sino-foreign joint venture established under the PRC law, was owned indirectly as to 95 per cent by LSG. The late Mr Lim was the Chairman of the Board of Xinyi. Tianhe was not a connected person of either LSG or CGL.

2. Between November 1999 and January 2001, Xinyi remitted RMB36.5 million to Tianhe by way of 69 bank remittances and other cash payments. The remittances made in November and December 1999 prior to receipt of funds from Crocodile Zhongshan were made possible with a shareholder's loan to Xinyi from an independent party who owned the remaining 5 per cent interest in Xinyi.

3. In July 2000 and April 2001, the late Mr Lim made two remittances to CGL of approximately HK$33.5 million (equivalent to RMB36.5 million). The late Mr Lim's payment to CGL were: (a) meant to be matching funds for the RMB36.5 million remittance by Crocodile Zhongshan to Tianhe through Xinyi, and (b) deemed to be repayment of shareholders loan due from Crocodile Zhongshan to CGL.

There were time lags in the late Mr Lim's payments to CGL as matching payments for funds which Crocodile Zhongshan remitted through Xinyi. No interest was paid by the late Mr Lim to compensate CGL for this delay.

The Listing Appeals Committee was of the view that the provision of an interest-free loan by CGL to the late Mr Lim was one of the principal effects of the Scheme and therefore constituted financial assistance under the then Rule 14.26(6)(a). With CGL being its subsidiary and the connected transaction provisions under the Exchange Listing Rules extended to transactions undertaken by a listed issuer's subsidiaries, LSG also breached the relevant provisions of the Exchange Listing Rules.

Richard Williams, Head of Listing commented: "The issuers which were the subject of these proceedings are examples of companies which have the same ultimate controlling shareholder whose representatives or related persons dominate the board of each issuer.

From the regulatory perspective, this characteristic gives added importance to those rules directed towards the preservation of the rights of the minority shareholders. Those rules governing the disclosure and execution of transactions with connected parties have that object as a dominant feature in that they seek to ensure that minority shareholders have the right to adequate and timely disclosure; independent advice and a vote on the merits of a transaction prior to its execution.

The prejudice or potential prejudice suffered by minority shareholders if these requirements are not observed particularly where financial assistance is directly or indirectly granted by the listed issuer to a member of senior management for their personal benefit is easily apparent.

The decision of the Listing Appeals Committee in this case provides further support for the position of the Exchange as to the importance of these provisions."