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## **THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about this prospectus or as to the action to be taken, you should consult your stockbroker, 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 (as defined herein), has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong, the Commissioner of Securities and Futures Commission and the Registrar of Companies in the Cayman Islands take no responsibility for the contents of any of these documents.

**If you have sold or transferred** all your shares in Lai Fung Holdings Limited ("Company"), you should at once hand this prospectus with the accompanying form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the Shares (as defined herein) and, the Rights Shares in their nil-paid form and fully-paid form may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your stockbroker or other registered dealer in securities, 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.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein) 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, make no representation as to its 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 this prospectus.

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## LAI FUNG HOLDINGS

Lai Fung Holdings Limited  
(Incorporated in the Cayman Islands with limited liability)

### **RIGHTS ISSUE OF 767,706,730 RIGHTS SHARES OF HK\$0.10 EACH AT HK\$0.10 PER RIGHTS SHARE IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY FIVE EXISTING SHARES HELD ON THE RECORD DATE PAYABLE IN FULL ON ACCEPTANCE**

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The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Tuesday, 22nd April, 2003. The procedure for acceptance or transfer is set out on pages 13 and 14 of this prospectus.

**It should be noted that the Underwriting Agreement contains detailed events which may cause the Underwriting Agreement to be terminated. These events are set out in the section headed "Underwriting Arrangement" on page 9 of this prospectus. If the Underwriting Agreement is terminated, the Rights Issue will not proceed.**

**It should also be noted that the shares of the Company have been dealt in on an ex-rights basis as from Wednesday, 26th March, 2003 and that the Rights Shares are expected to be dealt in their nil-paid form from Thursday, 3rd April, 2003 to Tuesday, 15th April, 2003 (both days inclusive). Such dealings will take place when the conditions of the Rights Issue remain unfulfilled. Any person dealing in the securities of the Company during the period from Wednesday, 26th March, 2003 to the date on which all such conditions are fulfilled and any person dealing in the nil-paid Rights Shares from Thursday, 3rd April, 2003 to Tuesday, 15th April, 2003 (being the first and last days of dealing in the nil-paid Rights Shares respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any person dealing or contemplating any dealing in the securities of the Company and/or the Rights Shares in their nil-paid form during this period who is in any doubt about his or her position is recommended to consult his or her own professional adviser.**

31st March, 2003

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## DEFINITIONS

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

“Announcement”	the announcement dated 11th March, 2003 issued by the Company headed “Rights Issue in the Proportion of One Rights Share for Every Five Shares Held at HK\$0.10 per Rights Share and Resumption of Trading”
“associate”	has the meaning ascribed to it in the Listing Rules
“Business Day”	a day on which banks are open for business in Hong Kong (excluding Saturdays and Sundays)
“CCASS”	the Central Clearing and Settlement System, established and operated by HKSCC
“Companies Law”	the Companies Law (2001 Second Revision) (Chapter 22 of the Laws of the Cayman Islands)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Lai Fung Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Conditions”	the conditions of the Rights Issue, as set out on page 11 of this prospectus
“Director(s)”	the director(s) of the Company
“Final Acceptance Date”	Latest time for acceptance of and payment for the Rights Shares
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	28th March, 2003, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information of this prospectus
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Major Shareholder”	Lai Sun Garment (International) Limited and Silver Glory Securities Limited, a wholly owned subsidiary of the former, which are in aggregate beneficially interested in approximately 46.04 % of the issued share capital of the Company
“Non-Qualifying Shareholder”	Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown on the register of members are in places outside Hong Kong
“PRC”	People’s Republic of China
“Prospectus Documents”	this Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Prospectus Posting Date”	31st March, 2003, the date on which the Prospectus Documents are despatched
“Qualifying Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and has its address on the register of members of the Company on the Record Date in Hong Kong
“Record Date”	31st March, 2003, the record date by reference to which entitlements to the Rights Issue will be determined
“Rights Issue”	the issue by the Company of the Rights Shares at a price of HK\$0.10 per Rights Share on the basis of one Rights Share for every five Shares held on the Record Date, subject to the terms and conditions set out in the Prospectus Documents
“Rights Shares”	767,706,730 new Shares to be issued pursuant to the Rights Issue
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the existing capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of the Rights Shares of HK\$0.10 per Rights Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“Underwriter”	DBS Asia Capital Limited
“Underwriting Agreement”	the underwriting agreement dated 7th March, 2003 and entered into between the Company and the Underwriter in relation to the Rights Issue
“HK\$” and “cents”	Hong Kong dollar(s) and Hong Kong cent(s) respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

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## SUMMARY OF THE TERMS 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	:	767,706,730 Rights Shares
Amount to be raised	:	Approximately HK\$76.77 million before expenses
Subscription Price	:	HK\$0.10 per Rights Share payable in full on acceptance
Final Acceptance Date	:	On or before 4:00 p.m. on Tuesday, 22nd April, 2003
Basis of the Rights Issue	:	One Rights Share for every five Shares held on the Record Date
Excess Applications	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotments
Status of Rights Shares	:	When allotted and fully-paid, the Rights Shares 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 allotment of the fully-paid Rights Shares.
Undertaking from Major Shareholders	:	Each of the Major Shareholders have given an irrevocable undertaking in favour of the Company and the Underwriter to take up its entitlement 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 Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders will be sold in the market in nil-paid form. If a premium, net of expenses, can be obtained, the Underwriter will procure the sale of such Rights Shares once dealings in the nil-paid Rights Shares start. Any net proceeds of sale, after deduction of expenses, will be distributed in Hong Kong dollars to the Non-Qualifying Shareholders pro rata to their respective entitlements, except that any individual amount of less than HK\$100 will be retained for the benefit of the Company. Any unsold entitlements of the Non-Qualifying Shareholders, any Rights Shares allotted provisionally but not accepted and any Rights Shares arising from the aggregation of fractional entitlements will be available for applications in the form of applications for excess Rights Shares by Qualifying Shareholders.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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### Termination of the Underwriting Agreement

If at any time up to 5:00 p.m. on the second Business Day following the Final Acceptance Date, one or more of the following events or matters shall develop, occur, arise or exist or come into effect:

- (i) 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 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, China, Cayman Islands or elsewhere; or
- (iii) any change 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 absolute 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; 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.

In particular, in the event of any outbreak of war, the Underwriter may, pursuant to the Underwriting Agreement, exercise its absolute discretion as stated above to terminate the Underwriting Agreement. In such event, the Rights Issue will not proceed. The Underwriter, at present, has still not decided how it will exercise its discretion. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

It is expected that the conditions referred to in the section headed “Conditions of the Rights Issue” in this prospectus are to be fulfilled by 5:00 p.m. Hong Kong time on Thursday, 24th April, 2003. If the conditions referred to in that section are not fulfilled or waived in whole or in part by the Underwriter on or before 5:00 p.m. Hong Kong time on Friday, 30th May, 2003 or the Underwriting Agreement has been terminated in accordance with the terms thereof, then the Rights Issue will not proceed.

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## EXPECTED TIMETABLE

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2003

Last day of dealings in Shares on a cum-rights basis . . . . .	Tuesday, 25th March
First day of dealings in Shares on an ex-rights basis . . . . .	Wednesday, 26th March
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue . . . . .	4:00 p.m. on Thursday, 27th March
Book closure period (both days inclusive) . . . . .	Friday, 28th March to Monday, 31st March
Record Date . . . . .	Monday, 31st March
Prospectus Documents expected to be despatched on . . . . .	Monday, 31st March
First day of dealings in nil-paid Rights Shares . . . . .	Thursday, 3rd April
Latest time for splitting nil-paid Rights Shares . . . . .	4:00 p.m. on Thursday, 10th April
Last day of dealings in nil-paid Rights Shares . . . . .	Tuesday, 15th April
Latest time for acceptance of and payment for Rights Shares . . . . .	4:00 p.m. on Tuesday, 22nd April
Rights Issue expected to become unconditional on or before . . . . .	5:00 p.m. on Thursday, 24th April
Announcement of results . . . . .	Monday, 28th April
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be despatched on or before . . . . .	Tuesday, 29th April
Certificates for fully-paid Rights Shares expected to be despatched on or before . . . . .	Tuesday, 29th April
Dealings in fully-paid Rights Shares expected to commence on . . . . .	Monday, 5th May



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## LETTER FROM THE BOARD

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# LAI FUNG HOLDINGS

Lai Fung Holdings Limited  
(Incorporated in the Cayman Islands with limited liability)

*Executive Directors:*

Lim Por Yen (*Chairman*)  
Lam Kin Ming\* (*Deputy Chairman*)  
Lam Kin Hong, Matthew (*Chief Executive Officer*)  
Ho Wing Tim<sup>o</sup> (*Deputy Chief Executive Officer*)  
Lam Kin Ngok, Peter  
Lee Po On  
Yew Yat Ming

*Non-Executive Directors:*

U Po Chu  
Lam Kin Ko, Stewart<sup>o</sup>  
Chiu Wai<sup>o</sup>  
Shiu Kai Wah<sup>o</sup>  
Siu Fai Wing<sup>o</sup>  
Yu Po Kwan<sup>o</sup>

\* also alternate director to <sup>o</sup>

*Independent Non-Executive Directors:*

Wong Yee Sui, Andrew  
Lam Bing Kwan

*Registered Office:*

Ugland House  
South Church Street  
P. O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Head Office and*

*Principal Place of Business:*

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

31st March, 2003

*To Qualifying Shareholders and,  
for information only, Non-Qualifying Shareholders*

Dear Sir/Madam,

**RIGHTS ISSUE OF 767,706,730 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$0.10 PER RIGHTS SHARE IN THE PROPORTION OF  
ONE RIGHTS SHARE FOR EVERY FIVE EXISTING SHARES  
HELD ON THE RECORD DATE  
PAYABLE IN FULL ON ACCEPTANCE**

### INTRODUCTION

As stated in the Announcement, the Company has proposed, subject to the fulfilment of the Conditions, to raise approximately HK\$76.77 million, before expenses, by way of a rights issue of 767,706,730 Rights Shares at the Subscription Price, in the proportion of one Rights Share for every five Shares held on the Record Date, payable in full on acceptance.

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## LETTER FROM THE BOARD

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The purpose of this prospectus is to give you further information regarding the Rights Issue, including information on dealings in and transfers and acceptances of the Rights Shares, and certain financial and other information in respect of the Group.

### THE RIGHTS ISSUE

#### Issue statistics

Basis of Rights Issue	:	One Rights Share for every five Shares held on the Record Date
Number of Shares in issue on the Record Date	:	3,838,533,653 Shares
Number of Rights Shares	:	767,706,730 Rights Shares, representing approximately 20% and 16.67% of the existing and enlarged issued share capital of the Company respectively
Subscription price for the Rights Shares	:	HK\$0.10 each
Underwriter	:	DBS Asia Capital Limited

The Company has no outstanding option, convertibles or warrant which confers the 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 any option which confers the right to subscribe for Shares; and (ii) issue any Shares.

#### Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must on the Record Date:

- be registered as a member of the Company at the close of business on the Record Date; and
- have an address in Hong Kong which appears on the register of members of the Company.

The Company will send provisional allotment letters and forms of application for excess Rights Shares to the Qualifying Shareholders only.

#### Subscription Price for the Rights Shares

The Subscription Price is HK\$0.10 per Rights Share, payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares 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 of HK\$0.10 was determined with reference to recent closing prices of the Shares on the Stock Exchange and represents (i) a discount of approximately 23.1% to the closing price of HK\$0.13 per Share quoted on the Stock Exchange on 7th March, 2003 (the last trading day prior to the suspension of trading of Shares on 10th March, 2003); (ii) a discount of approximately 20% to the theoretical ex-rights price of HK\$0.125 per Share based on that closing price per Share and (iii) a discount of approximately 27% to the average closing price of HK\$0.137 per Share for the last ten trading days prior to the date of the Announcement.

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

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

### **UNDERWRITING ARRANGEMENT**

#### **Underwriting Agreement**

Date	: 7th March, 2003
Underwriter	: DBS Asia Capital Limited (The entire underwriting of the Underwriter was sub-underwritten to DBS Vickers (Hong Kong) Limited)
Number of Rights Shares underwritten	: All Rights Shares not taken up by Major Shareholders
Commission	: HK\$2,380,000

Each of the Underwriter and DBS Vickers (Hong Kong) Limited is an independent third party not connected with the Directors, chief executive or substantial Shareholders or the Company's subsidiaries or any of their respective associates.

The Rights Shares other than those to be taken up by the Major Shareholders are fully underwritten by the Underwriter.

#### **Undertaking from the Major Shareholders**

As at the Latest Practicable Date, the Major Shareholders were together beneficially interested in an aggregate of 1,767,125,360 Shares, representing approximately 46.04% of the existing issued share capital of the Company. Each of them has given an irrevocable undertaking in favour of the Company and the Underwriter to take up its entitlement under the Rights Issue in full. Each of the Major Shareholders has indicated that it has no present intention to apply for any excess Rights Shares under the forms of application for excess Rights Shares.

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## LETTER FROM THE BOARD

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### Termination of the Underwriting Agreement

If at any time up to 5:00 p.m. on the second Business Day following the Final Acceptance Date, one or more of the following events or matters shall develop, occur, arise or exist or come into effect:

- (i) 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 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, China, Cayman Islands or elsewhere; or
- (iii) any change 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 absolute 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; 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.

In particular, in the event of any outbreak of war, the Underwriter may, pursuant to the Underwriting Agreement, exercise its absolute discretion as stated above to terminate the Underwriting Agreement. In such event, the Rights Issue will not proceed. The Underwriter, at present, has still not decided how it will exercise its discretion. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

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## LETTER FROM THE BOARD

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**It is expected that the conditions referred to in the section headed “Conditions of the Rights Issue” below are to be fulfilled by 5:00 p.m. Hong Kong time on 24th April, 2003. If the conditions referred to in that section are not fulfilled or waived in whole or in part by the Underwriter on or before 5:00 p.m. Hong Kong time on Friday, 30th May, 2003 or the Underwriting Agreement has been terminated in accordance with the terms thereof, then the Rights Issue will not proceed.**

### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, amongst other things, each of the following events happening:

- (i) the delivery by or on behalf of the Company of one copy of each of the Prospectus Documents, duly signed by or on behalf of all Directors or their authorised agents 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 not later than the Prospectus Posting Date;
- (ii) the posting of this prospectus to the Shareholders and the posting of the provisional allotment letters and the application forms for excess Rights Shares to the Qualifying Shareholders not later than the Prospectus Posting 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
- (iii) the Listing Committee granting or agreeing to grant (subject to allotment) 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 dealing of 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.

As at the date of issue of this prospectus, the condition referred to in item (i) above has been fulfilled. The Rights Issue is, however, subject to the remaining conditions being fulfilled.

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

### RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

Shares have been dealt with on an ex-rights basis from Wednesday, 26th March, 2003. The Rights Shares are expected to be dealt with in their nil-paid form from Thursday, 3rd April, 2003 to Tuesday, 15th April, 2003, both days inclusive. If the Underwriter terminates the Underwriting Agreement (see the section 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.

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## LETTER FROM THE BOARD

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Any person contemplating buying or selling Shares from now up to the date on which all the conditions of the Rights Issue are fulfilled (which is expected to be on or before 5:00 p.m. on Thursday, 24th April, 2003) and the date on which the Underwriter's right of terminating the Underwriting Agreement ceases (which is expected to be Thursday, 24th April, 2003), and contemplating buying or selling nil-paid Rights Shares between Thursday, 3rd April, 2003 and Tuesday, 15th April, 2003 (both days inclusive), will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. The latest time for the Rights Issue to become unconditional is on or before 5:00 p.m. on Friday, 30th May, 2003.

Investors are recommended to obtain professional advice regarding dealings in Shares or nil-paid Rights Shares during these periods.

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

#### **Business Review**

The principal activities of the Group are property development for sale and property investment for rental purposes in the mainland of China. The property portfolio of the Group currently includes Hong Kong Plaza in Shanghai, Eastern Place, a residential project in Guangzhou, and a number of development projects in progress or under planning in Guangzhou and Shanghai. The Company reported an audited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$93.98 million for the year ended 31st July, 2002, equivalent to Hong Kong currency 2.95 cents per Share. As at 31st July, 2002, the audited consolidated net tangible assets of the Company amounted to approximately HK\$5,523.50 million.

#### **Prospects**

It is anticipated that rental contributions from the Hong Kong Plaza in Shanghai and Tianhe Entertainment Plaza in Guangzhou, in which the Group holds a 25% interest, should continue to improve. The planned pre-sale of Phase III of Eastern Place in Guangzhou is expected to make a positive impact on the Group's turnover and profitability. The Group will maintain its focus on current property investment and development projects in progress in Shanghai and Guangzhou.

The real estate markets in major cities in the Mainland have recorded significant growth in recent years. There are emerging signs which tend to suggest that demand for properties in certain higher-end segments (in which the Group does not have a strong presence) is slowing. With the forecast growth in national gross domestic product of above 7% for this fiscal year, the Directors believe any short-term adjustment is unlikely to have any significant adverse impact on the long-term growth of the real estate market in the Mainland.

### **REASONS FOR THE RIGHTS ISSUE AND USE OF THE PROCEEDS**

The Directors consider that in view of the recent economic climate, it is prudent to finance the Group's long term growth by long term funding, preferably in the form of equity. Furthermore, the Directors consider that it is in the interest of the Company to enlarge its capital base by way of the Rights Issue which will allow all Shareholders the opportunity to participate in the growth of the Company.

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## LETTER FROM THE BOARD

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The proceeds from the Rights Issue, before expenses, is expected to be approximately HK\$76.77 million and approximately 30% of the proceeds will be used as additional working capital for the Group primarily for the purpose of financing the property projects of the Group in the PRC and approximately 70% thereof will be used for reducing the level of borrowings of the Group.

### NON-QUALIFYING SHAREHOLDERS

The Prospectus Documents have not been registered or filed under any applicable securities or equivalent legislation of any jurisdiction other than Hong Kong. As the Directors are of the view that the offer of Rights Shares to the Non-Qualifying Shareholders would, or might, in the absence of compliance with registration or other special formalities in other jurisdictions be unlawful or impracticable, no provisional allotment of Rights Shares has been made to the Non-Qualifying Shareholders and no provisional allotment letter or form of application for excess Rights Shares has been sent to the Non-Qualifying Shareholders. This prospectus is sent to the Non-Qualifying Shareholders for information only. Non-Qualifying Shareholders are not entitled to take part in the Rights Issue and no provisional allotment will be made to Non-Qualifying Shareholders.

Arrangements will be made 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 dealings in the nil-paid Rights Shares commence. If a premium, net of expenses, can be obtained, the Underwriter (as agent for the Company) will procure the nominee appointed to hold the Non-Qualifying Shareholders' Rights Shares under the provisional allotment to sell such Rights Shares once dealings in the nil-paid Rights Shares start. Any net proceeds of sale, after deduction of expenses, will be distributed in Hong Kong dollars to the Non-Qualifying Shareholders at their own risks pro rata to their respective entitlements, except that any individual amount of less than HK\$100 will be retained for the benefit of the Company.

Any unsold entitlements of the Non-Qualifying Shareholders, any Rights Shares allotted provisionally but not accepted and any Rights Shares arising from the aggregation of fractional entitlements will be available for applications in the form of applications for excess Rights Shares by Qualifying Shareholders.

### FRACTIONAL ENTITLEMENTS TO 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.

### PROCEDURE FOR ACCEPTANCE AND PAYMENT OR TRANSFER

A provisional allotment letter which entitles you to take up the number of the Rights Shares shown therein is enclosed with this prospectus. If you wish to exercise your rights to take up all the

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## **LETTER FROM THE BOARD**

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Rights Shares specified in the provisional allotment letter, you will need to 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 Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by not later than 4:00 p.m. on Tuesday, 22nd April, 2003. All remittances must be made in Hong Kong dollars. 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 Fung Holdings Limited - Provisional Allotment Account" and crossed "Account Payee Only".

It should be noted that unless the provisional allotment letter, together with the appropriate remittance, has been lodged with the Hong Kong branch share registrar of the Company by 4:00 p.m. on Tuesday, 22nd April, 2003, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The provisional allotment letter contains full information regarding the procedure to be followed. 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 4:00 p.m. on Thursday, 10th April, 2003 to the Company's Hong Kong branch share registrar, Tengis Limited, which will cancel the original provisional allotment letter and issue new provisional allotment letters, in the denominations required.

All cheques and cashier's orders will be presented for payment 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 or cashier's order is dishonoured 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 its obligations under the Underwriting Agreement before 5:00 p.m. on the second Business Day following the Final Acceptance Date and/or if any of the Conditions are not fulfilled, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred without interest, by means of cheques crossed "Account Payee Only" despatched in the ordinary post to their registered address and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the transfer form at the risk of such Qualifying Shareholders or such other persons on or about Tuesday, 29th April, 2003.

### **APPLICATIONS BY QUALIFYING SHAREHOLDERS FOR EXCESS RIGHTS SHARES**

If you wish to apply for any Rights Shares in addition to your provisional allotment under the Rights Issue, you must complete and sign the enclosed form of application for excess Rights Shares as indicated therein and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by not later than 4:00 p.m. on Tuesday, 22nd April, 2003. All remittances must



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## LETTER FROM THE BOARD

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be made in Hong Kong dollars. 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 Fung Holdings Limited- Excess Application Account" and crossed "Account Payee Only". The Directors will allocate the excess Rights Shares among Qualifying Shareholders who have validly applied for excess Rights Shares in such equitable manner as the Directors shall, at their sole discretion think fit and preference will be given to applications made to round up odd lot holdings to whole board lots. The Hong Kong branch share registrar will despatch a notice or notices to you of any allotment of excess Rights Shares made to you on or about Tuesday, 29th April, 2003.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgment of a form of application for excess Rights Shares together with a cheque or banker's cashier order in payment for the Rights Shares applied for will constitute a warranty by the applicant that the cheque or banker's cashier order will be honoured on first presentation. Any form of application for excess Rights Shares 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 is expected to be refunded to you in full without interest by means of cheques despatched in the ordinary post at your own risk on or about Tuesday, 29th April, 2003. If the number of excess Rights Shares allotted to you is less than that applied for, the surplus application money is expected to be refunded to you without interest by means of cheques despatched in the ordinary post and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the transfer form at your own risk on or about Tuesday, 29th April, 2003.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement before 5:00 p.m. on the second Business Day following the Final Acceptance Date and/or if any of the conditions are not fulfilled, the monies received in respect of applications for excess Rights Shares will be returned to the applicants without interest, by means of cheques despatched in the ordinary post at the risk of such applicants on or about Tuesday, 29th April, 2003.

The form of application for excess Rights Shares is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques and cashier's orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Company's Hong Kong branch share registrar, Tengis Limited.

The excess Rights Shares, if any, will be allocated by the Directors on a fair and reasonable basis as the Director shall at their sole discretion think fit and preference will be given to applications made to round up odd lot holdings to whole board lots.

Announcement of the results of the Rights Issue will be published in at least one English language newspaper and one Chinese language newspaper on Monday, 28th April, 2003.

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## LETTER FROM THE BOARD

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### COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

No action has been taken in any jurisdictions other than Hong Kong and the Cayman Islands to permit the offering of the Rights Shares or the distribution of any of the Prospectus Documents in any territory outside Hong Kong, and therefore no person receiving any of the Prospectus Documents in any territory outside Hong Kong may treat it as an offer or an invitation to apply for Rights Shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements. Subject as referred to below, it is the responsibility of anyone outside Hong Kong wishing to make an application for Rights Shares to satisfy himself or herself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for Rights Shares will be accepted from any person whose address is outside Hong Kong unless the Company in its absolute discretion is satisfied that such acceptance would not involve any breach of any applicable laws or regulatory requirements or any need for compliance with any registration or other legal or regulatory requirements. The Company reserves the right to refuse to accept any application for Rights Shares if it believes that such acceptance would violate the applicable securities or other laws or regulations of any territory.

### LISTING AND DEALINGS

Application has been made to the Listing Committee 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 their nil-paid form will commence on Thursday, 3rd April, 2003 and will end on Tuesday, 15th April, 2003 (both days inclusive).

The Shares are listed on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought. The Company has no debt securities in issue.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both 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 Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange 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 will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into 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 the nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

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## LETTER FROM THE BOARD

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The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on Monday, 5th May, 2003.

It should be noted that the Shares have been dealt in on an ex-rights basis as from Wednesday, 26th March, 2003 and that the Rights Shares will be dealt in their nil-paid form from Thursday, 3rd April, 2003 to Tuesday, 15th April, 2003 (both days inclusive). Such dealings will take place when the conditions remain unfulfilled. Any person dealing in the Shares during the period from Wednesday, 26th March, 2003 to the date on which all the conditions are fulfilled and any person dealing in the nil-paid Rights Shares from Thursday, 3rd April, 2003 and will end on Tuesday, 15th April, 2003 (being the first and last days of dealing in the nil-paid Rights Shares respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any person dealing or contemplating any dealing in the Shares and/or the Rights Shares in their nil-paid form during this period who is in any doubt about his position is recommended to consult his own professional adviser.

### SHARE CERTIFICATES

It is expected that certificates for the fully-paid Rights Shares will be posted to the persons entitled thereto at their own risk by the Hong Kong branch share registrar of the Company on or about Tuesday, 29th April, 2003 to their registered address and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members of the Company. Where entitlement to the Rights Shares in their fully-paid form exceeds one board lot, it is proposed, so far as practicable, to issue certificates in board lots of 1,000 Rights Shares each with a separate certificate for the balance.

### TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the Rights Shares and, as regards the Non-Qualifying Shareholders, their receipt of the net proceeds of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised 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.

### FURTHER INFORMATION

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

Yours faithfully,  
For and on behalf of the Board of  
**Lai Fung Holdings Limited**  
**Lim Por Yen**  
*Chairman*

## 1. INFORMATION FOR THE LAST THREE FINANCIAL YEARS

Set out below is a summary of the audited consolidated profit and loss account for each of the three years ended 31st July, 2000, 2001 and 2002 and the audited consolidated balance sheets as at 31st July, 2000, 31st July, 2001 and 31st July, 2002, reclassified as appropriate, as extracted from the Company's audited financial statements for each of the three years ended 31st July, 2000, 2001 and 2002:

## RESULTS

	Year ended 31st July,		
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	142,510	161,743	191,593
Cost of Sales	<u>(80,580)</u>	<u>(102,815)</u>	<u>(152,898)</u>
Gross profit	61,930	58,928	38,695
Other revenues	59,161	68,324	51,575
Administrative expenses	(44,887)	(62,627)	(69,319)
Gain on disposal of a jointly-controlled entity	—	—	6,610
Overprovision/(provision) for completed properties for sale	—	5,000	(10,500)
Overprovision/(provision) for properties under development held for purposes other than investment potential	<u>—</u>	<u>3,982</u>	<u>(127)</u>
PROFIT FROM OPERATING ACTIVITIES	76,204	73,607	16,934
Finance costs	(57,960)	(139,973)	(91,675)
Share of losses of associates	(43,742)	(44,718)	(42,042)
Impairment loss in amount due from an associate	(18,916)	(17,787)	—
Share of losses of jointly-controlled entities	—	—	(36,790)
Impairment loss in interests in jointly-controlled entities	(45,057)	—	—
Write-off of unamortised goodwill on acquisition of an associate	<u>—</u>	<u>(36,993)</u>	<u>—</u>
LOSS BEFORE TAX	(89,471)	(165,864)	(153,573)
TAX	<u>(2,352)</u>	<u>2,068</u>	<u>120,740</u>
LOSS BEFORE MINORITY INTERESTS	(91,823)	(163,796)	(32,833)
Minority interests	<u>(2,153)</u>	<u>(823)</u>	<u>44,373</u>
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(93,976)</u>	<u>(164,619)</u>	<u>11,540</u>
Basic (loss)/earnings per share	<u>(2.9) cents</u>	<u>(7.6) cents</u>	<u>1.1 cents</u>

**APPENDIX I**
**FINANCIAL AND OTHER INFORMATION**
**ASSETS AND LIABILITIES**

	<b>2002</b> <i>HK\$'000</i>	<b>As at 31st July,</b> <b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	50,280	6,364	8,170
Investment properties	2,952,400	2,954,000	2,972,060
Properties under development	3,209,980	3,354,567	3,287,781
Interests in associates	599,908	624,178	672,280
Interests in jointly-controlled entities	5,118	50,127	50,127
	<u>6,817,686</u>	<u>6,989,236</u>	<u>6,990,418</u>
<b>CURRENT ASSETS</b>			
Completed properties for sale	16,555	58,130	133,553
Debtors, deposits and prepayments	55,372	54,814	67,306
Tax recoverable	13,442	14,370	13,103
Pledged bank balances	11,698	2,315	—
Cash and cash equivalents	96,284	98,507	180,004
	<u>193,351</u>	<u>228,136</u>	<u>393,966</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	138,006	86,106	169,603
Deposits received	19,502	12,114	21,044
Rental deposits received	10,455	12,525	10,101
Creditors and accruals	227,425	279,141	355,995
	<u>395,388</u>	<u>389,886</u>	<u>556,743</u>
<b>NET CURRENT LIABILITIES</b>	<u>(202,037)</u>	<u>(161,750)</u>	<u>(162,777)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	6,615,649	6,827,486	6,827,641
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	(829,445)	(891,635)	(97,112)
Convertible guaranteed bonds	—	—	(929,445)
Convertible note	—	—	(600,000)
Loans from a substantial shareholder	(86,886)	(53,285)	—
Long-term rental deposits received	(10,735)	(7,303)	(8,660)
Provision for premium on convertible note redemption	—	—	(21,667)
	<u>(927,066)</u>	<u>(952,223)</u>	<u>(1,656,884)</u>
<b>MINORITY INTERESTS</b>	<u>(165,085)</u>	<u>(162,376)</u>	<u>(151,889)</u>
	<u>5,523,498</u>	<u>5,712,887</u>	<u>5,018,868</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	383,853	307,083	104,711
Reserves	5,139,645	5,405,804	4,914,157
	<u>5,523,498</u>	<u>5,712,887</u>	<u>5,018,868</u>

## 2. FINANCIAL INFORMATION

Set out below are the audited consolidated profit and loss account of the Group for each of the two years ended 31st July, 2001 and 2002 and the audited consolidated balance sheets as at 31st July, 2001 and 31st July, 2002 together with the relevant notes thereto as extracted from the Company's latest audited financial statements set out in the Company's latest published annual report:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

FOR THE YEAR ENDED 31ST JULY, 2002

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
TURNOVER	6	142,510	161,743
Cost of Sales		<u>(80,580)</u>	<u>(102,815)</u>
Gross profit		61,930	58,928
Other revenue	6	59,161	68,324
Administrative expenses		(44,887)	(62,627)
Overprovision for completed properties for sale		—	5,000
Overprovision for properties under development held for purposes other than investment potential		<u>—</u>	<u>3,982</u>
PROFIT FROM OPERATING ACTIVITIES	7	76,204	73,607
Finance Costs	8	(57,960)	(139,973)
Share of losses of associates		(43,742)	(44,718)
Impairment loss in amount due from an associate		(18,916)	(17,787)
Write-off of unamortised goodwill on acquisition of an associate		—	(36,993)
Impairment loss in interests in jointly-controlled entities		<u>(45,057)</u>	<u>—</u>
LOSS BEFORE TAX		(89,471)	(165,864)
TAX	11	<u>(2,352)</u>	<u>2,068</u>
LOSS BEFORE MINORITY INTERESTS		(91,823)	(163,796)
Minority interests		<u>(2,153)</u>	<u>(823)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12, 18	<u>(93,976)</u>	<u>(164,619)</u>
LOSS PER SHARE			
Basic	13	<u>2.95 cents</u>	<u>7.50 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**APPENDIX I****FINANCIAL AND OTHER INFORMATION****CONSOLIDATED BALANCE SHEET**

AS AT 31ST JULY, 2002

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	50,280	6,364
Investment properties	15	2,952,400	2,954,000
Properties under development	16	3,209,980	3,354,567
Interests in associates	18	599,908	624,178
Interests in jointly-controlled entities	19	<u>5,118</u>	<u>50,127</u>
		<u>6,817,686</u>	<u>6,989,236</u>
<b>CURRENT ASSETS</b>			
Completed properties for sale	20	16,555	58,130
Debtors, deposits and prepayments	21	55,372	54,814
Tax recoverable		13,442	14,370
Pledged bank balances	22	11,698	2,315
Cash and cash equivalents	22	<u>96,284</u>	<u>98,507</u>
		<u>193,351</u>	<u>228,136</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	23	138,006	86,106
Deposits received		19,502	12,114
Rental deposits received		10,455	12,525
Creditors and accruals	24	<u>227,425</u>	<u>279,141</u>
		<u>395,388</u>	<u>389,886</u>
<b>NET CURRENT LIABILITIES</b>		<u>(202,037)</u>	<u>(161,750)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,615,649	6,827,486
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	23	(829,445)	(891,635)
Loans from a substantial shareholder	25	(86,886)	(53,285)
Long-term rental deposits received		<u>(10,735)</u>	<u>(7,303)</u>
		<u>(927,066)</u>	<u>(952,223)</u>
<b>MINORITY INTERESTS</b>		<u>(165,085)</u>	<u>(162,376)</u>
		<u>5,523,498</u>	<u>5,712,887</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	27	383,853	307,083
Reserves	28	<u>5,139,645</u>	<u>5,405,804</u>
		<u>5,523,498</u>	<u>5,712,887</u>

**APPENDIX I****FINANCIAL AND OTHER INFORMATION****CONSOLIDATED CASH FLOW STATEMENT***FOR THE YEAR ENDED 31ST JULY, 2002*

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	29(a)	<u>39,641</u>	<u>33,577</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		790	2,360
Finance costs paid		<u>(60,113)</u>	<u>(174,567)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(59,323)</u>	<u>(172,207)</u>
TAX			
Profits tax refunded/(paid) outside Hong Kong		<u>(1,424)</u>	<u>801</u>
INVESTING ACTIVITIES			
Proceeds from disposal of fixed assets		46	386
Purchases of fixed assets		(944)	(985)
Additions to investment properties		(10,409)	(17,663)
Additions to properties under development		(54,689)	(96,123)
Advances to associates		—	(5,100)
Increase in pledged bank balances		<u>(9,383)</u>	<u>(2,315)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(75,379)</u>	<u>(121,800)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(96,485)</u>	<u>(259,629)</u>
FINANCING	29(b)		
Gross proceeds from issue of shares		76,770	—
Share of issue expenses		(3,142)	—
Proceeds from new bank borrowings		28,283	930,629
Repayment of bank borrowings		(39,014)	(219,603)
Redemption of convertible note		—	(600,000)
Loans from a substantial shareholder		71,283	51,582
Repayment of loan from a substantial shareholder		(40,000)	—
Advances from minority interests		<u>675</u>	<u>15,354</u>
NET CASH FLOW FROM FINANCING		<u>94,855</u>	<u>177,962</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(1,630)	(81,667)
Cash and cash equivalents at beginning of year		98,507	180,004
Exchange realignments		<u>(593)</u>	<u>170</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>96,284</u>	<u>98,507</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		75,383	98,507
Non-pledged time deposits with original maturity of less than three months when acquired		<u>20,901</u>	<u>—</u>
		<u>96,284</u>	<u>98,507</u>



## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST JULY, 2002

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Deficit on revaluation of investment properties	28	(11,909)	(24,875)
Deficit on revaluation of properties under development held for investment potential	28	(158,849)	(46,027)
Exchange reserve arising on conversion of convertible guaranteed bonds	28	—	(9,558)
Exchange differences on translation of financial statements of foreign subsidiaries, associates and jointly-controlled entities	28	<u>1,717</u>	<u>95</u>
Net losses not recognised in the profit and loss account		(169,041)	(80,365)
Net loss from ordinary activities attributable to shareholders	28	<u>(93,976)</u>	<u>(164,619)</u>
Total recognised gains and losses		<u>(263,017)</u>	<u>(244,984)</u>

**NOTES TO FINANCIAL STATEMENTS**

31 July 2002

**1. CORPORATE INFORMATION**

The registered office of the Company is located at P. O. Box 309GT, Umland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal activities of the Group have not changed during the year and consisted of property development for sale and property investment for rental purposes.

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”)**

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations — subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”
- Interpretation 14: “Evaluating the substance of transactions involving the legal form of a lease”
- Interpretation 15: “Business combinations — date of exchange and fair value of equity instruments”
- Interpretation 16: “Disclosure — service concession arrangements”
- Interpretation 17: “Revenue — barter transactions involving advertising services”

These SSAPs prescribe 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 those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in notes 3 and 28 to the financial statements. The required new additional disclosures are included in note 28 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the periodic re-measurement of investment properties and properties under development held for investment potential, 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 31 July 2002. 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 inter-company transactions and balances within the Group are eliminated on consolidation.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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.

Certain interest on loans borrowed for investments in associates engaged in property development is capitalised in the Group's share of the net assets of the associates.

#### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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, less any impairment losses. In prior years, goodwill arising on the acquisition of an associate was amortised on the straight-line basis over a period of 40 years, which was determined by the directors with reference to the estimated future economics benefits to be generated from the associate. The unamortised portion of such goodwill arising on the acquisition of the associate was fully written off in the prior year. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 August 2001, to remain eliminated against consolidated reserves, further details of which are included in note 28 to the financial statements. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, 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 remaining 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, associates or jointly-controlled entities represents the excess of the Group's share of the fair values 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. 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 and jointly-controlled entities, 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.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1 August 2001, to remain credited to the capital reserve, further details of which are included in note 28 to the financial statements. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, 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 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, properties under development and completed properties for sales, are stated at cost less accumulated depreciation and any impairment losses. 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 the 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 assets, the expenditure is capitalised as an additional cost of that asset.

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

Leasehold land and buildings	Over the lease terms
Leasehold improvements	20%
Furniture, fixtures and equipment	18% - 20%
Motor vehicles	18% - 25%
Computers	18% - 25%

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

**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, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, 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**

(a) Properties under development held for investment potential are stated at their open market value on the basis of annual professional valuations.

Changes in the values of such properties under development which have been revalued are dealt with as movements in the revaluation reserve of properties under development held for investment potential. 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 completion, the properties are transferred to investment properties.

On disposal of a property under development which has been revalued, the relevant portion of the revaluation reserve of properties under development held for investment potential realised in respect of previous valuations is released to the profit and loss account.

(b) Properties under development held for purposes other than investment potential are stated at cost less any impairment losses.

Where pre-sale of properties has commenced, properties under development held for purposes other than investment potential are stated at cost plus attributable profits (recognised on the basis set out under the heading "Revenue recognition" in this note) less the attributable sales instalments received and receivable.

Cost of properties in the course of development comprises land cost, fees for land use rights, construction costs, financing and other related expenses capitalised during the development period.

#### **Completed properties for sale**

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is estimated by the directors based on the prevailing market conditions. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties.

#### **Leased assets**

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.

#### **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 completed properties for sale upon the establishment of a binding contract in respect of the sale of properties or upon the issue of a completion certificate by the relevant government authorities, whichever is the later;

(b) from the pre-sale of properties under development, when a binding contract in respect of properties has been executed and the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, the attributable revenues and profit on the pre-sold portion of the properties under development, being a proportion of the total revenue and profits expected on completion, is recognised over the course of the development. The proportion used is calculated by reference to the lower of:

(i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and

(ii) the proportion of the actual cash received to the total sales consideration.

Where purchasers fail to pay the balances of the purchase price on completion and the Group exercises its right to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit and the profits recognised so far are reversed;

- (c) rental income is recognised in the period in which the properties are let and on a straight-line basis over the lease terms;
- (d) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) management fee income is recognised when services are rendered.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rates for the year are based on the specific attributable borrowing costs of the borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

**Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2000. 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 Scheme. The assets of the Scheme 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 Scheme.

Prior to the Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the “prior scheme”) for its employees who were eligible and had elected to participate in the scheme. This prior scheme operated in a similar way to the Scheme, except that when an employee left the prior scheme before his/her interest in the employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, the prior scheme was terminated.

The employees of the Group’s subsidiary which operate in the Mainland China (the “PRC”) are required to participate in a central pension scheme operated by the local municipal government. Those PRC subsidiaries are required to contribute 20% to 22.5% of its payroll costs to the central pension scheme.

**Foreign currencies**

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

On consolidation, the financial statements of subsidiaries, associates and jointly-controlled entities operating outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.



**Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and cash equivalents represent assets similar in nature of cash, which are not restricted as to use.

**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.

**4. SEGMENT INFORMATION**

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 other business segments. Summary details of the business segments are as follows:

- (a) the property development segment engages in the development of properties in the PRC; and
- (b) the property investment segment invests in service apartments, commercial and office buildings in the PRC for their rental income potential.

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

No geographical segment information is presented as over 90% of the Group's customers and assets are located in the PRC.

**APPENDIX I**
**FINANCIAL AND OTHER INFORMATION**
**Business segments**
*Group*

	<b>Property development</b>		<b>Property investment</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:						
Sales to external customers	43,064	76,349	—	—	43,064	76,349
Rental income	—	—	99,446	85,394	99,446	85,394
Other revenue	<u>1,856</u>	<u>—</u>	<u>19,596</u>	<u>19,099</u>	<u>21,452</u>	<u>19,099</u>
Total	<u>44,920</u>	<u>76,349</u>	<u>119,042</u>	<u>104,493</u>	<u>163,962</u>	<u>180,842</u>
Segment results	<u>(5,815)</u>	<u>(13,013)</u>	<u>54,292</u>	<u>49,076</u>	48,477	36,063
Interest income					37,709	49,225
Unallocated expenses					(9,982)	(20,663)
Overprovision for completed properties for sale		5,000			—	5,000
Overprovision for properties under development held for purposes other than investment potential		3,982			<u>—</u>	<u>3,982</u>
Profit from operating activities					76,204	73,607
Finance costs					(57,960)	(139,973)
Operating profit/(loss) before share of results of associates and jointly-controlled entities					18,244	(66,366)
Share of losses of associates			(43,742)	(44,718)	(43,742)	(44,718)
Impairment loss in amount due from an associate			(18,916)	(17,787)	(18,916)	(17,787)
Write-off of unamortised goodwill on acquisition of an associate				(36,993)	—	(36,993)
Impairment loss in interests in jointly-controlled entities	(45,057)				<u>(45,057)</u>	<u>—</u>
Loss before tax					(89,471)	(165,864)
Tax					<u>(2,352)</u>	<u>2,068</u>
Loss before minority interests					(91,823)	(163,796)
Minority interests					<u>(2,153)</u>	<u>(823)</u>
Net loss from ordinary activities attributable to shareholders					<u>(93,976)</u>	<u>(164,619)</u>

**Business segments***Group*

	<b>Property development</b>		<b>Property investment</b>		<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	844,875	861,289	5,506,990	5,641,466	6,351,865	6,502,755
Interests in associates	—	—	599,908	624,178	599,908	624,178
Interests in jointly-controlled entities	5,118	50,127	—	—	5,118	50,127
Unallocated assets					<u>54,146</u>	<u>40,312</u>
Total assets					<u><u>7,011,037</u></u>	<u><u>7,217,372</u></u>
Segment liabilities	80,249	158,086	77,030	70,234	157,279	228,320
Unallocated liabilities					<u>1,165,175</u>	<u>1,113,789</u>
Total liabilities					<u><u>1,322,454</u></u>	<u><u>1,342,109</u></u>
Other segment information:						
Depreciation	—	—	2,927	1,835	2,927	1,835
Amortisation of goodwill arising on acquisition of an associate	—	—	—	1,156	—	1,156
Write back of provision for doubtful debts	—	—	—	(3,211)	—	(3,211)
Deficit on revaluation of investment properties	—	—	12,009	29,305	12,009	29,305
Deficit on revaluation of properties under development held for investment potential	—	—	158,849	46,027	158,849	46,027
Capital expenditure	<u>9,517</u>	<u>8,492</u>	<u>56,507</u>	<u>106,046</u>	<u>66,024</u>	<u>114,538</u>

## 5. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from an associate	(i)	36,919	45,088
Interest expense on loans from a substantial shareholder	(ii)	2,318	1,703
Rental expense paid to an associate of Lai Sun Garment (International) Limited	(iii)	<u>344</u>	<u>—</u>

(i) Interest is charged on an advance to an associate at Hong Kong dollar prime rate plus 2% per annum. Details of the advance are included in note 18 to the financial statements.

(ii) Interest is charged on the loans from a substantial shareholder. Details of the loans granted are included in note 25 to the financial statements.

(iii) The annual rental charge was calculated by reference to the prevailing open market rentals.

## 6. TURNOVER AND REVENUE

The Group is principally engaged in property development and property investment. Turnover comprises proceeds from the sale of completed properties for sale and rental income from investment properties. An analysis of turnover and other revenue is as follows:

		Group	
		2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:			
Sale of completed properties for sale		43,064	76,349
Rental income from investment properties		<u>99,446</u>	<u>85,394</u>
		<u>142,510</u>	<u>161,743</u>
Other revenue:			
Management fee income		18,489	19,099
Interest income from:			
Bank deposits		790	2,360
An associate		36,919	45,088
Others		—	1,777
Other income		<u>2,963</u>	<u>—</u>
		<u>59,161</u>	<u>68,324</u>
		<u>201,671</u>	<u>230,067</u>

**7. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	700	650
Cost of completed properties for sale	49,249	81,841
Depreciation	3,092	1,897
Outgoings in respect of rental income	31,331	15,974
Guaranteed rental returns	165	184
Minimum lease payments under operating leases in respect of land and buildings ( <i>Note (a)</i> )	344	443
Staff costs ( <i>Note (b)</i> ) (including directors' remuneration — <i>note 9</i> ):		
Wages and salaries	10,197	13,406
Pension scheme contributions	227	490
Less: Forfeited contributions	<u>(253)</u>	<u>(44)</u>
	<u>10,171</u>	<u>13,852</u>
Amortisation of goodwill arising on acquisition of an associate	—	1,156
Loss on disposal of fixed assets	9	508
Write back of provision for doubtful debts	—	(3,211)
Foreign exchange gains, net	<u>(57)</u>	<u>(16)</u>

*Notes:*

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Minimum lease payments under operating leases in respect of land and buildings	344	2,216
Capitalised in properties under development	<u>—</u>	<u>(1,773)</u>
	<u>344</u>	<u>443</u>

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
(b) Staff costs	17,174	26,879
Capitalised in properties under development	<u>(7,003)</u>	<u>(13,027)</u>
	<u>10,171</u>	<u>13,852</u>

## 8. FINANCE COSTS

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on:		
Bank loans wholly repayable within five years	14,559	18,351
Bank loans wholly repayable beyond five years	40,571	—
Amounts due to minority shareholders	—	517
Convertible guaranteed bonds and convertible note	—	89,181
Loans from a substantial shareholder	2,318	1,703
Provision for premium on convertible note redemption	—	38,333
Bank charges	<u>4,983</u>	<u>7,035</u>
	62,431	155,120
Less:		
Amounts capitalised in properties under development	(4,471)	(12,708)
Amounts capitalised in associates engaged in property development	<u>—</u>	<u>(2,439)</u>
	<u><u>57,960</u></u>	<u><u>139,973</u></u>

During the current year, the Group had no funds that were borrowed generally and used for the purpose of financing properties under development. In the prior year, to the extent funds were borrowed generally and used for the purpose of financing certain properties under development, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these properties under development was 5.8% per annum.

**9. DIRECTORS' REMUNERATION**

Directors' remuneration 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 Hong Kong Companies Ordinance is as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	225	128
Salaries, allowances and benefits in kind	2,920	7,801
Pension scheme contributions	<u>22</u>	<u>11</u>
	3,167	7,940
Capitalised in properties under development	<u>(2,336)</u>	<u>(6,352)</u>
	<u>831</u>	<u>1,588</u>

Fees include HK\$120,000 (2001: HK\$128,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

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

	<b>Number of directors</b>	
	<b>2002</b>	<b>2001</b>
Nil - HK\$1,000,000	14	13
HK\$1,000,001 - HK\$1,500,000	1	2
HK\$1,500,001 - HK\$2,000,000	—	1
HK\$2,500,001 - HK\$3,000,000	<u>—</u>	<u>1</u>
	<u>15</u>	<u>17</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

**10. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included three (2001: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2001: one) non-directors, highest paid employees are set out below:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,565	897
Pension scheme contributions	<u>12</u>	<u>36</u>
	1,577	933
Capitalised in properties under development	<u>(550)</u>	<u>(747)</u>
	<u><u>1,027</u></u>	<u><u>186</u></u>

The remuneration of the non-director, highest paid employees fell within the band of nil to HK\$1,000,000 during the years ended 31 July 2002 and 2001.

**11. TAX**

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2001: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charge for the year for PRC profits tax	3,000	—
Over-provision of PRC profits tax in prior years	<u>(648)</u>	<u>(2,068)</u>
Tax charge/(credit) for the year	<u><u>2,352</u></u>	<u><u>(2,068)</u></u>

In connection with listing of the Company on The Stock Exchange of Hong Kong Limited (currently on the Main Board) (the "Listing"), tax indemnity deeds were signed on 12 November 1997, pursuant to which LSD has undertaken to indemnify the Group in respect of certain potential PRC income taxes and land appreciation taxes ("LAT") payable or shared by the Group in consequence of the disposal of any of the property interests attributable to the Group through its subsidiaries and its associates as at 31 October 1997 ("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 as at 31 October 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31 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 value 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 the Group subsequent to 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 the Group as set out in the Company's prospectus dated 18 November 1997.

The Group had no LAT payable during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

#### **12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 July 2002 was HK\$7,459,000 (2001: HK\$121,016,000).

#### **13. LOSS PER SHARE**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$93,976,000 (2001: HK\$164,619,000), and the weighted average of 3,180,247,007 (2001: 2,194,357,310) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The diluted loss per share for the years ended 31 July 2002 and 2001 has not been disclosed as no diluting events existed during these years.

**APPENDIX I**
**FINANCIAL AND OTHER INFORMATION**
**14. FIXED ASSETS**
**Group**

	<b>31 July 2001</b>	<b>Additions</b>	<b>Reclassified from properties under development</b>	<b>Disposals</b>	<b>31 July 2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:					
Leasehold land and buildings	—	—	46,119	—	46,119
Leasehold improvements	31	—	—	—	31
Furniture, fixtures and equipment	13,054	854	—	(95)	13,813
Motor vehicles	1,644	—	—	—	1,644
Computers	1,439	90	—	(36)	1,493
	<u>16,168</u>	<u>944</u>	<u>46,119</u>	<u>(131)</u>	<u>63,100</u>
Accumulated depreciation:					
Leasehold land and buildings	—	1,281	—	—	1,281
Leasehold improvements	3	7	—	—	10
Furniture, fixtures and equipment	7,905	1,409	—	(51)	9,263
Motor vehicles	1,164	115	—	—	1,279
Computers	732	280	—	(25)	987
	<u>9,804</u>	<u>3,092</u>	<u>—</u>	<u>(76)</u>	<u>12,820</u>
Net book value	<u>6,364</u>				<u>50,280</u>

The Group's leasehold land and buildings as at 31 July 2002 are situated in the PRC and are, held under medium term leases.

**15. INVESTMENT PROPERTIES**

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year, at valuation	2,954,000	2,972,060
Additions	10,409	17,663
Transferred to completed properties for sale	—	(6,418)
Deficit on revaluation	<u>(12,009)</u>	<u>(29,305)</u>
At end of year, at valuation	<u>2,952,400</u>	<u>2,954,000</u>

At 31 July 2002, the investment properties were revalued by Chesterton Petty Limited, independent professional valuers, at HK\$2,952,400,000 (2001: HK\$2,954,000,000) on an open market value basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30 to the financial statements.

The investment properties are situated in the PRC and are held under medium term leases.

At 31 July 2002, certain investment properties with carrying value amounting to approximately HK\$2,872,520,000 (2001: HK\$2,954,000,000) have been pledged to bank to secure banking facilities granted to the Group as further set out in note 23 to the financial statements.

#### 16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties under development held for investment potential, at valuation:		
At beginning of year	2,630,144	2,576,880
Interest capitalised, net	3,482	11,539
Other additions	45,842	87,752
Reclassified to fixed assets	(46,119)	—
Deficit on revaluation	(158,849)	(46,027)
Exchange realignments	882	—
	<u>2,475,382</u>	<u>2,630,144</u>
Properties under development held for purposes other than investment potential, at cost:		
At beginning of year	724,423	714,883
Interest capitalised, net	989	1,169
Other additions	8,847	8,371
Exchange realignments	339	—
	<u>734,598</u>	<u>724,423</u>
Total balance at end of year	<u>3,209,980</u>	<u>3,354,567</u>

**APPENDIX I****FINANCIAL AND OTHER INFORMATION**

At 31 July 2002, properties under development held for investment potential were revalued by Chesterton Petty Limited, independent professional valuers, on an open market value basis.

An analysis by lease terms of the carrying value of the properties under development held for investment potential and held for purposes other than investment potential is as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties under development held for investment potential, at valuation:		
Leases of between 10 to 50 years	1,966,382	2,099,144
Leases of over 50 years	<u>509,000</u>	<u>531,000</u>
	<u>2,475,382</u>	<u>2,630,144</u>
Properties under development held for purposes other than investment potential, at cost:		
Leases of between 10 to 50 years	120,263	115,161
Leases of over 50 years	<u>614,335</u>	<u>609,262</u>
	<u>734,598</u>	<u>724,423</u>
	<u>3,209,980</u>	<u>3,354,567</u>

All properties under development are situated in the PRC.

At 31 July 2002, certain properties under development with carrying value amounting to approximately HK\$485,645,000 (2001: HK\$520,309,000) have been pledged to banks to secure banking facilities granted to the Group as further set out in note 23 to the financial statements.

**17. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	144,272	144,272
Amounts due from subsidiaries	3,255,231	3,246,311
Amounts due to subsidiaries	<u>(6,983)</u>	<u>(6,983)</u>
	<u>3,392,520</u>	<u>3,383,600</u>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

**APPENDIX I**
**FINANCIAL AND OTHER INFORMATION**

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beautiwin Limited	Hong Kong	HK\$2	—	100	Investment holding
Goldthorpe Limited	British Virgin Islands	US\$1	—	100	Investment holding
Grace Snow Limited	Hong Kong	HK\$2	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK\$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK\$2	—	100	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd.*	PRC	RMB100,000,000	—	100**	Property development and investment
Guangzhou Grand Wealth Properties Ltd.*	PRC	HK\$138,000,000	—	100**	Property development and investment
Guangzhou Gongbird Property Development Ltd.*	PRC	US\$22,160,000	—	100**	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd.*	PRC	HK\$168,000,000	—	100**	Property development and investment
Lai Fung Company Limited	Hong Kong	HK\$20	100	—	Investment holding
Nicebird Company Limited	Hong Kong	HK\$2	—	100	Investment holding
Shanghai Li Xing Real Estate Development Co., Ltd.*	PRC	US\$36,000,000	—	90	Property development and investment
Sunlite Investment Limited	Hong Kong	HK\$2	—	100	Investment holding
Wealthy Grow Limited	Hong Kong	HK\$2	—	100	Investment holding
Topsider International Limited	British Virgin Islands	US\$1	100	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK\$2	—	100	Investment holding
Shanghai HKP Property Management Co., Ltd.*	PRC	US\$150,000	—	95	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.*	PRC	US\$10,000,000	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands	US\$1	—	100	Property investment

\* These subsidiaries have registered capital rather than issued share capital.

\*\* These subsidiaries are co-operative joint ventures of which the joint venture partners' profit sharing ratios and the distribution of net assets upon the expiration of the joint venture periods are not in proportion to their equity ratios but are as defined in the joint venture contracts.

At 31 July 2002, the shares in certain subsidiaries are pledged to secure bank loan facilities granted to the Group.

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. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

#### 18. INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets other than goodwill	—	42,273
Amounts due from associates	<u>636,611</u>	<u>599,692</u>
	636,611	641,965
Less: Provision for impairment	<u>(36,703)</u>	<u>(17,787)</u>
	<u>599,908</u>	<u>624,178</u>

Except for an amount of HK\$433,208,000 (2001: HK\$396,289,000) due from an associate which bears interest at Hong Kong dollar prime rate plus 2% per annum, the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the balance of "Share of net assets other than goodwill" is interest capitalised of approximately HK\$72,095,000 (2001: HK\$72,095,000) on borrowings for investments in associates engaged in property development and investment.

In the prior year, a write off of unamortised goodwill on acquisition of an associate and amortisation of goodwill of HK\$36,993,000 and HK\$1,156,000, respectively, was charged to the profit and loss account.

Details of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Besto Investments Limited*	Hong Kong	Ordinary	25	Investment holding
Hankey Development Limited*	Hong Kong	Ordinary	50	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd.*	PRC	—**	48.3	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.*	PRC	—**	49.5	Property development and investment
Guangzhou Tianhe Baito Culture & Entertainment Square Co., Ltd.*	PRC	—**	25	Property development and investment
Guangzhou Besto Real Estate Development Co., Ltd.*	PRC	—**	25	Property development and investment
Guangzhou New Wave Culture Plaza*	PRC	—**	25	Property development and investment

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

\*\* These associates have registered capital rather than issued share capital.

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

#### 19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	50,912	50,870
Amounts due to jointly-controlled entities	<u>(737)</u>	<u>(743)</u>
	50,175	50,127
Less: Provision for impairment	<u>(45,057)</u>	<u>—</u>
	<u>5,118</u>	<u>50,127</u>

Included in the balance of "Share of net assets" is interest capitalised of approximately HK\$18,503,000 (2001: HK\$18,503,000) on borrowings for investments in jointly-controlled entities engaged in property development.

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

Details of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration/ and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Zhong Shan Li Shan Properties Development Limited ("Li Shan")	Corporate	PRC	50	50	50	Property development
Qingyuan Grace Snow Properties Ltd.	Corporate	PRC	100	56	72	Property development

All interests in jointly-controlled entities are indirectly held by the Company.

The impairment loss arose from the directors' assessment of the estimated realisable value of a joint venture property development project with reference to prevailing the market conditions.

## 20. COMPLETED PROPERTIES FOR SALE

Included in completed properties for sale is an amount of approximately HK\$16,555,000 (2001: HK\$58,130,000) which is carried at net realisable value.

## 21. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms of the Group range from 30 to 180 days. An aged analysis of debtors as at 31 July 2002 is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Amounts not yet due	1,735	7,975
Overdue by 30 days	1,510	5,405
Overdue by 60 days	3,368	8,307
Overdue by 90 days	1,445	1,865
Overdue by more than 90 days	<u>23,724</u>	<u>14,299</u>
Trade receivables	31,782	37,851
Deposits and prepayments	<u>23,590</u>	<u>16,963</u>
Total	<u>55,372</u>	<u>54,814</u>



## 22. CASH AND CASH EQUIVALENTS AND BANK BALANCES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	87,081	100,822	86	211
Time deposits	20,901	—	20,306	—
	107,982	100,822	20,392	211
Less: Pledged bank balances	(11,698)	(2,315)	—	—
Cash and cash equivalents	<u>96,284</u>	<u>98,507</u>	<u>20,392</u>	<u>211</u>

## 23. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank loans repayable:		
Within one year or on demand	138,006	86,106
In the second year	47,138	106,254
In the third to fifth years, inclusive	493,688	785,381
Beyond five years	<u>288,619</u>	<u>—</u>
	967,451	977,741
Current portion included in current liabilities	<u>(138,006)</u>	<u>(86,106)</u>
Long term portion	<u>829,445</u>	<u>891,635</u>

The Group's bank loans are secured by:

- (a) the pledge of certain of the Group's properties under development with carrying value amounting to approximately HK\$485,645,000 (2001: HK\$520,309,000) at the balance sheet date;
- (b) mortgages over the Group's investment properties, with carrying value amounting to approximately HK\$2,872,520,000 (2001: HK\$2,954,000,000) at the balance sheet date;
- (c) the pledge of the Group's cash and bank balances amounting to HK\$11,698,000 (2001: HK\$2,315,000);
- (d) mortgages over the entire registered capital of two of the Group's subsidiaries; and
- (e) corporate guarantees provided by the Company.

**24. CREDITORS AND ACCRUALS**

The aged analysis of creditors as at 31 July 2002 based on invoice date, is as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	6,569	1,706
Between 1 to 3 months	167	326
Over 3 months	<u>56,720</u>	<u>37,789</u>
Trade payables	63,456	39,821
Accruals and other creditors	<u>163,969</u>	<u>239,320</u>
Total	<u><u>227,425</u></u>	<u><u>279,141</u></u>

**25. LOANS FROM A SUBSTANTIAL SHAREHOLDER**

During the year, the following loans were granted by a substantial shareholder to the Group and the Company:

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing at best lending rate quoted by a specified bank	787	40,787	787	40,787
Interest-bearing at London Inter-Bank Offering Rate	20,238	10,795	—	—
Interest-free	<u>65,861</u>	<u>1,703</u>	<u>5,838</u>	<u>1,676</u>
	<u><u>86,886</u></u>	<u><u>53,285</u></u>	<u><u>6,625</u></u>	<u><u>42,463</u></u>

All of the above loans are unsecured and not repayable within one year.

**26. DEFERRED TAX**

At the balance sheet date, the Group's unprovided deferred tax liabilities arising from the revaluation of investment properties and properties under development amounted to HK\$231,978,000 (2001: HK\$252,225,000) and HK\$838,400,000 (2001: HK\$922,093,000) in respect of LAT and income tax, respectively. In the opinion of the directors, the deferred tax liabilities are not expected to crystallise in the foreseeable future since the Group has no intention to dispose of these revalued properties.

Indemnities on certain tax liabilities arising from the disposal of the Group's properties under development, completed properties for sale and other properties were given by LSD. Details of the indemnities are included in note 11 to the financial statements.

## 27. SHARE CAPITAL

	<b>Number of shares 2002 '000</b>	<b>Nominal value 2002 HK\$'000</b>	<b>Number of shares 2001 '000</b>	<b>Nominal value 2001 HK\$'000</b>
Authorised:				
Ordinary shares of HK\$0.10 each	<u>7,000,000</u>	<u>700,000</u>	<u>7,000,000</u>	<u>700,000</u>
Issued and fully paid:				
Ordinary shares of HK\$ 0.10 each	<u>3,838,534</u>	<u>383,853</u>	<u>3,070,827</u>	<u>307,083</u>

During the year, a rights issue of one rights share for every four existing shares held by members on the register of members on 31 May 2002 was made, at an issued price of HK\$0.10 per rights share, resulting in the issue of 767,706,730 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$76,770,000, which was used as working capital of the Group.

## 28. RESERVES

Group	Share premium account <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Properties under development held for	Capital reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
				investment potential revaluation reserve <i>HK\$'000</i>			
At 1 August 2000	2,492,200	25,803	462,995	1,580,892	181,292	170,975	4,914,157
Share premium arising on conversion of convertible guaranteed bonds	736,631	—	—	—	—	—	736,631
Exchange realignments	—	95	—	—	—	—	95
Exchange reserve arising on conversion of convertible guaranteed bonds	—	(9,558)	—	—	—	—	(9,558)
Deficit on revaluation	—	—	(24,875)	(46,027)	—	—	(70,902)
Loss for the year	—	—	—	—	—	(164,619)	(164,619)
At 31 July 2001 and 1 August 2001	3,228,831	16,340	438,120	1,534,865	181,292	6,356	5,405,804
Share issue expenses	(3,142)	—	—	—	—	—	(3,142)
Exchange realignments	—	1,717	—	—	—	—	1,717
Deficit on revaluation	—	—	(11,909)	(158,849)	—	—	(170,758)
Loss for the year	—	—	—	—	—	(93,976)	(93,976)
At 31 July 2002	<u>3,225,689</u>	<u>18,057</u>	<u>426,211</u>	<u>1,376,016</u>	<u>181,292</u>	<u>(87,620)</u>	<u>5,139,645</u>
Reserves retained by:							
Company and subsidiaries	3,225,689	11,842	426,211	1,376,016	181,292	103,750	5,324,800
Associates	—	7,979	—	—	—	(153,870)	(145,891)
Jointly-controlled entities	—	(1,764)	—	—	—	(37,500)	(39,264)
At 31 July 2002	<u>3,225,689</u>	<u>18,057</u>	<u>426,211</u>	<u>1,376,016</u>	<u>181,292</u>	<u>(87,620)</u>	<u>5,139,645</u>
Company and subsidiaries	3,228,831	11,636	438,120	1,534,865	181,292	153,984	5,548,728
Associates	—	6,510	—	—	—	(110,128)	(103,618)
Jointly-controlled entities	—	(1,806)	—	—	—	(37,500)	(39,306)
At 31 July 2001	<u>3,228,831</u>	<u>16,340</u>	<u>438,120</u>	<u>1,534,865</u>	<u>181,292</u>	<u>6,356</u>	<u>5,405,804</u>

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. As explained in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 and Interpretation 13 which permits goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 August 2001, to remain eliminated against or credited to the capital reserve. The amount of goodwill and negative goodwill remaining in the capital reserve arising from the acquisition of subsidiaries, is HK\$457,000 and HK\$181,749,000, respectively, as at both 1 August 2001 and 31 July 2002. The amount of goodwill is stated at its cost. The adoption of SSAP 30 and Interpretation 13 has no material impact on the amounts previously reported in prior year financial statements and has not resulted in any prior year adjustment.

**Company**

	<b>Share premium account</b>	<b>Exchange fluctuation reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 August 2000	2,492,200	—	(67,697)	2,424,503
Share premium arising on conversion of convertible guaranteed bonds	736,631	—	—	736,631
Exchange reserve arising on conversion of convertible guaranteed bonds	—	(9,558)	—	(9,558)
Loss for the year	<u>—</u>	<u>—</u>	<u>(121,016)</u>	<u>(121,016)</u>
At 31 July 2001 and 1 August 2001	3,228,831	(9,558)	(188,713)	3,030,560
Share issue expenses	(3,142)	—	—	(3,142)
Loss for the year	<u>—</u>	<u>—</u>	<u>(7,459)</u>	<u>(7,459)</u>
At 31 July 2002	<u>3,225,689</u>	<u>(9,558)</u>	<u>(196,172)</u>	<u>3,019,959</u>

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operating activities	76,204	73,607
Interest income	(37,709)	(49,225)
Loss on disposal of fixed assets	9	508
Write back of provision for doubtful debts	—	(3,211)
Overprovision of completed properties for sale	—	(5,000)
Overprovision for properties under development held for purposes other than investment potential	—	(3,982)
Depreciation	3,092	1,897
Amortisation of goodwill arising on acquisition of an associate	—	1,156
Decrease in completed properties for sale	41,575	86,841
Decrease/(increase) in debtors, deposits and prepayments	(558)	15,703
Decrease in amounts due to jointly-controlled entities	(6)	—
Decrease in deposits received, short-term rental deposits received and creditors and accruals	(46,398)	(83,360)
Increase/(decrease) in long-term rental deposits received	<u>3,432</u>	<u>(1,357)</u>
Net cash inflow from operating activities	<u>39,641</u>	<u>33,577</u>

## (b) Analysis of changes in financing during the year

	Issued capital and share premium account <i>HK\$'000</i>	Convertible guaranteed bonds and convertible note <i>HK\$'000</i>	Bank loans, secured <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Loans from a substantial shareholder <i>HK\$'000</i>
Balance at 31 July 2000	2,596,911	1,529,445	266,715	151,889	—
Net cash inflow/(outflow) from financing	—	(600,000)	711,026	15,354	51,582
Share of profit for the year	—	—	—	823	—
Conversion of convertible guaranteed bonds	939,003	(929,445)	—	—	—
Interest on loans from a substantial shareholder	—	—	—	—	1,703
Interest on current accounts with minority shareholders	—	—	—	(1,260)	—
Share of revaluation deficit of investment properties	—	—	—	(4,430)	—
Balance at 31 July 2001	3,535,914	—	977,741	162,376	53,285
Net cash inflow/(outflow) from financing	73,628	—	(10,731)	675	31,283
Share of profit for the year	—	—	—	2,153	—
Share of exchange reserve	—	—	—	(19)	—
Exchange realignments	—	—	441	—	—
Share of revaluation deficit of investment properties	—	—	—	(100)	—
Interest on loans from a substantial shareholder	—	—	—	—	2,318
Balance at 31 July 2002	<u>3,609,542</u>	<u>—</u>	<u>967,451</u>	<u>165,085</u>	<u>86,886</u>

## 30. OPERATING LEASE ARRANGEMENTS

## (a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two months to five years. The terms of the leases generally also require the tenants to pay security deposits.

**APPENDIX I****FINANCIAL AND OTHER INFORMATION**

At 31 July 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	59,202	13,865
In the second to fifth years, inclusive	119,387	33,534
After five years	<u>83,147</u>	<u>54,843</u>
	<u><u>261,736</u></u>	<u><u>102,242</u></u>

(b) **As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 July 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	233	116
In the second to fifth years, inclusive	<u>97</u>	<u>28</u>
	<u><u>330</u></u>	<u><u>144</u></u>

**31. CONTINGENT LIABILITIES**

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	<b>Company</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	<u><u>1,166,000</u></u>	<u><u>1,166,000</u></u>

As at 31 July 2002, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$967,000,000 (2001: HK\$978,000,000).

(b) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of Li Xing for the due performance of its undertaking to buy back the relevant property in case of default by the borrower. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.



(c) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, the Company 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 the Company at the balance sheet date.

### 32. COMMITMENTS

At 31 July 2002, the Group had capital commitments in respect of the following:

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Land premium, resettlement and compensation and construction costs	<u>560,937</u>	<u>786,620</u>

### 33. POST BALANCE SHEET EVENT

On 21 June 2001, Sunlite Investment Limited ("Sunlite"), a wholly-owned subsidiary of the Company, entered into a conditional agreement with Tai Hong Company Limited ("Tai Hong"), the minority shareholder of certain subsidiaries of the Company, namely, Shanghai Li Xing Real Estate Development Co., Ltd. ("Li Xing"), Shanghai HKP Property Management Co., Ltd. and Shanghai Lai Fung Department Store Co., Ltd. (collectively the "Subsidiaries"), whereby Sunlite agreed to purchase from Tai Hong its 5% equity interest in each of the Subsidiaries together with a Shareholder's loan made to Li Xing of approximately RMB4,600,000 for a total consideration of US\$1,700,000 (the "Consideration"). At the balance sheet date, Sunlite had paid a total of RMB11,000,000 (the "Deposit") as part of the Consideration to Tai Hong and such Deposit paid was included in the debtors, deposits and prepayments in the Group's consolidated balance sheet as at 31 July 2002. During the process of transferring the legal title of the equity interest in Li Xing, it became known to Sunlite that a charging order was created by the Shenzhen Municipal Intermediate People's Court (the "Shenzhen Court") on any changes in registration of the equity interest in Li Xing. The equity interest in Li Xing was then frozen by the Shenzhen Court.

Sunlite then filed a statement of dissent in asserting its valid beneficial ownership of the equity interest in Li Xing. Subsequent to the balance sheet date on 14 August 2002, the Shenzhen Court ruled in favour of Sunlite that upon the payment by Sunlite of the remaining Consideration of approximately RMB2,900,000, the charging order on the equity interest in Li Xing would be released. The remaining Consideration was paid by the Group on 20 September 2002 and the transfer of the equity interest in Li Xing was completed on 28 September 2002. Since then, the Group's equity interest in Li Xing increased from 90% to 95%.

### 34. COMPARATIVE AMOUNTS

During the year, the directors considered it a fairer presentation to include in the cost of sales, certain costs incurred directly for the purpose of earning rental income which were classified as administrative expenses in prior years. Consequently, HK\$16 million representing the aforesaid direct cost of rental income was reclassified from administrative expenses to cost of sales for the year ended 31 July 2001.

In addition, the directors considered it a fairer presentation to restructure the items on the Company's and the Group's balance sheets where the "Minority Interests" and "Non-Current Liabilities", which were previously shown after the item "Capital and Reserves", are now moved to the upper part of the balance sheets to arrive at the net asset value of the Company and the Group. Comparative amounts in the balance sheets are restated to conform to this presentation.

### 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 November 2002.

### 3. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following pro forma statement of unaudited adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 31st July, 2002, taking into account the effect of the Right Issue:

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the Group as at 31st July, 2002	5,523,498
Add: Estimated net proceeds from the Rights Issue	<u>72,000</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately following the Rights Issue	<u>5,595,498</u>
Pro forma unaudited adjusted consolidated net tangible assets per Share immediately prior to the Rights Issue (based on 3,838,533,653 Shares in issue as at the Latest Practicable Date)	<u>HK\$1.44</u>
Pro forma unaudited adjusted consolidated net tangible assets per Share immediately following the Rights Issue (based on 4,606,240,383 Shares in issue assuming the completion of the Rights Issue with 767,706,730 Rights Shares issued in relation thereto)	<u>HK\$1.21</u>

### 4. WORKING CAPITAL

The Directors are of the opinion that, in the absence of any unforeseen circumstances, the Group has sufficient working capital for its present requirements 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.

### 5. INDEBTEDNESS

At the close of business on 31st January, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings including accrued interest, of approximately HK\$1,143,701,000 comprising secured bank borrowings of approximately HK\$1,029,458,000, and other unsecured borrowings of approximately HK\$114,243,000 from a substantial shareholder of the Company.

The Group's secured bank borrowings are secured by legal charge over the Group's investment properties and properties under development with carrying values as at 31st January, 2003 of approximately HK\$2,896,050,000, and HK\$1,199,495,000 respectively. The Group's secured bank borrowings are also secured by the assignment of all rental income and sales proceeds of the investment properties under the legal charge. As at 31st January, 2003, the aggregate balance of the charged bank accounts in which those rental income and sale proceeds were deposited amounted to approximately HK\$6,070,000.

As at 31st January, 2003, the Group had contingent liabilities in respect of the following:

- (1) Under a mortgage loan facility provided by a bank to the end-buyers of certain properties in Shanghai, the PRC, the Company agreed to guarantee up to 95% of such liabilities of a subsidiary of the Company, for the due performance of its undertaking to buy back the relevant properties in case of default by the end-buyers; and
- (2) Under mortgage loan facilities provided by banks to the end-buyers of certain properties in Guangzhou, the PRC, the Company or its subsidiary agreed to provide guarantees to banks to buy back the relevant properties in case of default by the end-buyers.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31st January, 2003.

The Directors have confirmed that there has been no material change in the indebtedness and the contingent liabilities of the Group since 31st January, 2003.

## **6. MATERIAL CHANGES**

Save as disclosed in this prospectus, there has been no material change in the financial position or trading position of the Group since 31st July, 2002, the date to which the latest audited financial statements of the Group were made up.

## 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. Lim Por Yen**, Chairman, aged 88, is the founder of the Lai Sun Group and was appointed a Director on 4th September, 2002. He is also the chairman and managing director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), the chairman of Crocodile Garments Limited, the honorary chairman of Lai Sun Development Company Limited and an executive director of eSun Holdings Limited. Mr. Lim first became involved in the property and investment business in the mid-1950's and has close to 60 years' experience in the garment business. He is an honorary citizen of the city of Guangzhou, the city of Swatow, the city of Xiamen and the city of Zhong Shan in the PRC. Mr. Lim was also one of the Hong Kong Affairs Advisers to the PRC and is a founder member of The Better Hong Kong Foundation.

**Lam Kin Ming**, Deputy Chairman, aged 65, was appointed a Director on 8th September, 1997. He was also appointed an alternate director to Mr. Chiu Wai, Mr. Shiu Kai Wah, Mr. Siu Fai Wing, Mr. Lam Kin Ko, Stewart, Mr. Ho Wing Tim and Ms Yu Po Kwan on 21st April, 2001. Mr. Lam is a director of Lai Sun Development Company Limited and eSun Holdings Limited and the deputy chairman of both Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. Mr. Lam has extensive experience in property development and investment and the garment business, having been involved in the day-to-day management of the garment business since 1958. Mr. Lam is a son of Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

**Mr. Lam Kin Hong, Matthew**, Chief Executive Officer, aged 35, was appointed a Director on 22nd December, 2001. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. He attained a Bachelor of Science degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development fields and corporate finance fields in Hong Kong and China. Mr. Lam is a son of Mr. Lim Por Yen and is the youngest brother of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming.

**Mr. Ho Wing Tim**, Deputy Chief Executive Officer, aged 44, was appointed a Director on 21st April, 2001. Mr. Ho joined the Lai Sun Group in November 1990 and is the financial controller of Lai Sun Garment (International) Limited, (a substantial shareholder of the Company). He has over 20 years' experience in the finance field.

**Mr. Lam Kin Ngok, Peter**, aged 45, was appointed a Director on 25th November 1993. Mr. Lam is also the chairman and president of Lai Sun Development Company Limited, a deputy chairman of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), a director of eSun Holdings Limited and Crocodile Garments Limited. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

**Mr. Lee Po On**, aged 47, was appointed a Director on 17th January, 2003. Mr. Lee is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and an executive director and the chief executive officer of eSun Holdings Limited. Mr. Lee joined the Lai Sun Group in November 1987 and held the position of chief executive officer of Asia Television Limited from 1992 to 1996. He is a Fellow of the Association of Chartered Certified Accountants with over 24 years' financial and commercial experience.

**Mr. Yew Yat Ming**, aged 36, was appointed a Director on 7th January, 2002. Mr. Yew joined the Lai Sun Group in 1991. He is an executive director of Kingscord Investment Limited, a subsidiary of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and is responsible for property development business. He graduated with a Master of Science degree in Construction Management in London and qualified as a professional associate of various institutions including The Royal Institution of Chartered Surveyors, The Chartered Institute of Arbitrators and is also a Registered Professional Surveyor in Hong Kong. He is a Council Member of Shanghai Real Estate Association. Mr. Yew has served with the Hong Kong Government and an international consultancy firm and has over 14 years' experience in property investment, land acquisitions, project planning and management in Hong Kong and the Mainland of China.

#### **Non-executive directors**

**Madam U Po Chu**, aged 78, was appointed a Director on 14th February, 2003. She is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments 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 became involved in property development and investment in the late 1980's. She is Mr. Lim Por Yen's wife.

**Mr. Lam Kin Ko, Stewart**, aged 54, was appointed a Director on 21st April, 2001. He has over 10 years' experiences in garment manufacturing and China trade and had held the position of Consultant to the Chairman (China Affairs) of the Lai Sun Group since 1994. Mr. Lam is also a director of Crocodile Garments Limited.

**Mr. Chiu Wai**, aged 72, was appointed a Director on 21st April, 2001. Mr. Chiu is also a director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments Limited. Mr. Chiu has over 40 years' experience in production management.

**Mr. Shiu Kai Wah**, aged 70, was appointed a Director on 21st April, 2001. He is also a director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), 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. Siu Fai Wing**, aged 56, was appointed a Director on 21st April, 2001. Mr. Siu is the president and chief executive officer of China Gallery Group Limited, managing director of Hong Kong Gallery Centre & Enterprise Co. Ltd., and chairman and managing director of Shantou SEZ Art & Culture Centre Development Co., Ltd. He is also the chairman of Calligraphy and Cultural Relics Limited. He has been actively involved in cultural and civic activities and currently serves as a director of a number of organisations and societies such as Federation of Hong Kong Guangdong Community Organisations Ltd., Hong Kong Institute of Chinese Paintings and the Hong Kong Shantou Chamber of Commerce.

**Ms. Yu Po Kwan**, aged 52, was appointed a Director on 21st April, 2001. Ms. Yu is a senior manager of Lai Sun Garment (International) Limited (a substantial shareholder of the Company). She has over 25 years' extensive experience in the import and export of garments business and has been managing the garment export quota operation since 1980. Ms. Yu was also elected a director of the Federation of Hong Kong Garment Manufacturers in 2002.

#### **Independent non-executive directors**

**Mr. Wong Yee Sui, Andrew**, aged 53, was appointed an independent non-executive director of the Company on 1st December, 1999. Mr. Wong graduated from the University of Adelaide, South Australia in 1971 and obtained a Master of Business Administration degree at Queen's University, Canada in 1974. He became a Chartered Accountant in 1976 in Quebec, Canada, and a fellow member of Hong Kong Society of Accountants in 1988. Mr. Wong has extensive experience in the auditing and finance fields in Hong Kong and overseas. He is a partner of W. M. Sum & Co., a firm of Certified Public Accountants in Hong Kong.

**Mr. Lam Bing Kwan**, aged 53, was appointed an independent non-executive director of the Company on 30th July, 2001. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has substantial experience in property development and investment in the Mainland of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently a director of Sino-i.com Limited and South Sea Holding Company Limited, both listed on the Main Board of the Hong Kong Stock Exchange.

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

<b>Underwriter</b>	DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
<b>Legal Advisers to the Company</b>	<i>On Hong Kong Law</i> Woo, Kwan, Lee & Lo 27th Floor, Jardine House 1 Connaught Place Central, Hong Kong  <i>On Cayman Islands Law</i> Maples and Calder Asia 1504 One International Finance Centre 1 Harbour View Street, Hong Kong
<b>Auditors</b>	Ernst & Young Certified Public Accountants 15th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong
<b>Registered office</b>	Ugland House South Church Street P. O. Box 309 George Town Grand Cayman Cayman Islands British West Indies
<b>Head office and principal place of business</b>	11th Floor, Lai Sun Commercial Centre 680 Cheung Sha Wan Road Kowloon, Hong Kong
<b>Authorized representative</b>	Mr. Lam Kin Ming Mr. Ho Wing Tim
<b>Company secretary</b>	Mr. Yeung Kam Hoi ACIS, ACS 11th Floor, Lai Sun Commercial Centre 680 Cheung Sha Wan Road Kowloon, Hong Kong

<b>Hong Kong branch share registrar</b>	Tengis Limited Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
<b>Principal banker</b>	The Hongkong and Shanghai Banking Corporation Limited No.1 Queen's Road Central, Hong Kong

#### 4. SHARE CAPITAL

- (a) The authorised and issued share capital of the Company as at the Record Date and following completion of the Rights Issue (assuming the Rights Issue becoming unconditional) will be as follows:

*HK\$*

(i) **Authorized capital**

7,000,000,000	Shares of HK\$0.10 each as at the Record Date	700,000,000
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(ii) **Shares issued and to be issued as fully-paid**

3,838,533,653	Shares in issue as at the Record Date	383,853,365.3
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<u>767,706,730</u>	Rights Shares	<u>76,770,673.0</u>
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<u>4,606,240,383</u>	Shares in issue after the Rights Issue ( <i>Note</i> )	<u>460,624,038.3</u>
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*Note:* Assuming the Rights Issue becomes unconditional and the Rights Shares are fully subscribed and no further Shares are issued by the Company between the Record Date and date of completion of the Rights Issue.

- (b) The Group currently does not have any share option schemes for its officers or employees.



## 5. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, only the following Director of the Company had interest in the equity or debt securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Code for Securities Transactions by Directors adopted by the Company:

	Number of Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	NIL	NIL	1,767,125,360 (Note)	NIL	1,767,125,360

*Note:* These interests in the Company represented the shares beneficially owned by Lai Sun Garment (International) Ltd. ("LSG") (1,212,804,242 shares) and Silver Glory Securities Ltd. ("SGS") (554,321,118 shares), a wholly-owned subsidiary of LSG. Mr. Lim Por Yen was deemed to be interested in the 1,767,125,360 shares in the Company held by LSG and SGS since Mr. Lim Por Yen (together with his associates) held an interest of about 34.01% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG.

Mr. Lim Por Yen had, on normal commercial terms, made unsecured loans to the Group amounting to approximately HK\$114,243,000.00 as at 31st January, 2003. Save as herein disclosed, no director is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Group taken as a whole.

No Director at any time since 31st July, 2002, being the date to which the latest audited financial statements of the Group were prepared, have been directly or indirectly, interested in any assets acquired by, disposed of, or leased to, or by, any member of the Group or proposed to be acquired by, disposed of, or leased to, or by, any member of the Group.

None of the Directors has received any commissions, discounts, brokerage or other special terms granted within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

## 6. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following persons were interested or deemed to be interested in 10% or more of the nominal value of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Shares Held	Shareholding Percentage
Lai Sun Garment (International) Limited (“LSG”)	1,767,125,360 <i>(Note)</i>	46.04%
Silver Glory Securities Limited (“SGS”).	554,321,118 <i>(Note)</i>	14.44%
Lim Por Yen	1,767,125,360 <i>(Note)</i>	46.04%
Credit Suisse First Boston (Hong Kong) Limited	442,112,068	11.52%

*Note:* Mr. Lim Por Yen is deemed to be interested in the 1,767,125,360 Shares held by LSG and SGS, a wholly owned subsidiary of LSG, as Mr. Lim Por Yen (together with his associates) held an interest of approximately 34.01% in the issued share capital of LSG.

Save as disclosed herein, the Directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at the Latest Practicable Date.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of the business carried on by the Group) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are, or may be, material:

- (a) an underwriting agreement dated 8th May, 2002 relating to a rights issue of not less than 767,706,730 shares of HK\$0.10 each at HK\$0.10 per share entered into between the Company and ICEA Capital Limited;
- (b) an agreement for the sale and purchase of shares in and shareholder’s loan to Farron Assets Limited (“FA”) entered into between Goldthorpe Limited (“GL”), a wholly-owned subsidiary of the Company and Goldmark Pacific Limited (“GP”) an independent third party, on 27th February, 2003 pursuant to which GL agreed to sell and GP agreed to purchase 22.5% of the issued share capital of FA and 22.5% of the shareholder’s loan to FA for an aggregate consideration of HK\$111,000,000; and
- (c) the Underwriting Agreement.

**8. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors have any existing or proposed service contracts with the Group (which are not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

**9. LITIGATION**

No member of the Group is engaged in any litigation, arbitration or other proceedings of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

**10. BINDING EFFECT**

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

**11. EXPENSES**

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$4.77 million and are payable by the Company.

**12. DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES**

A copy of each of the Prospectus Documents have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company in Hong Kong at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong up to 4:00 p.m. on Tuesday, 22nd April, 2003:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and
- (iii) the annual reports of the Group for each of the 2 years ended 31st July, 2002.