



LAI SUN GARMENT

LAI SUN GARMENT (INTERNATIONAL) LIMITED

Interim Report 2001-2002

## **PLACE OF INCORPORATION**

Hong Kong

## **BOARD OF DIRECTORS**

Lim Por Yen (Chairman and Managing Director)

Lam Kin Ngok, Peter (Deputy Chairman)

Lam Kin Ming (Deputy Chairman)

Chiu Wai

Shiu Kai Wah

Lee Po On

Lam Kin Hong, Matthew

U Po Chu

Lai Yuen Fong

Lam Wai Kei, Vicky<sup>#</sup>

Mui Chiu Ying<sup>\*</sup>

Wan Yee Hwa, Edward<sup>\*</sup> (appointed on 15th March, 2002)

*Wong Kai Cho, Kenneth resigned as a Director on 15th March, 2002*

<sup>#</sup> *Alternate Director to Madam Lai Yuen Fong*

<sup>\*</sup> *Independent Non-executive Directors*

## **COMPANY SECRETARY**

Yeung Kam Hoi

## RESULTS

The Board of Directors of Lai Sun Garment (International) Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2002 were as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2002

		Six months ended	
		31/1/2002	31/1/2001
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	2	595,874	705,060
Cost of sales		(401,643)	(484,554)
Gross profit		194,231	220,506
Other revenue		3,743	60,182
Administrative expenses		(57,855)	(59,162)
Selling and distribution costs		(116,928)	(149,714)
Other operating expenses, net		(29,051)	(10,628)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	(5,860)	61,184
Finance costs	4	(2,261)	(5,455)
Share of losses less profits of associates		(196,138)	(674,003)
LOSS BEFORE TAX		(204,259)	(618,274)
Tax	5	(5,962)	(10,950)
LOSS BEFORE MINORITY INTERESTS		(210,221)	(629,224)
Minority interests		(4,238)	(4,704)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	6, 12	(214,459)	(633,928)
LOSS PER SHARE	6		
Basic		HK\$0.15	HK\$0.44
Diluted		N/A	N/A

## CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 31st January, 2002

	Notes	Six months ended	
		31/1/2002	31/1/2001
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Share of reserves of associates	12	—	(79)
Exchange differences on translation of the financial statements of foreign entities, net	12	527	1,433
Net gains not recognised in the profit and loss account		527	1,354
Net losses from ordinary activities attributable to shareholders	12	(214,459)	(633,928)
Total recognised gains and losses		(213,932)	(632,574)
Negative goodwill credited to/(goodwill eliminated against) capital reserve arising on:			
Acquisition of subsidiaries	12	—	(480)
Acquisition of associates	12	—	1,079,084
Adjustment for negative goodwill eliminated against capital reserve arising on acquisition of additional interests in subsidiaries in prior year	12	—	22,673
		(213,932)	468,703

In addition to the gains and losses detailed above, certain gains and losses arose since 31st July, 2001 as a result of prior year adjustments arising from the changes in accounting policies summarised in note 2 to the condensed consolidated financial statements, as follows:

For the six months ended 31st January, 2002, as reported above

Recognised losses arising from prior year adjustments, relating to period prior to 1st August, 2000

Total recognised gains and losses arising since the last annual report

(213,932)

(26,457)

(240,389)

## CONDENSED CONSOLIDATED BALANCE SHEET

31st January, 2002

		31/1/2002 (Unaudited)	31/7/2001 (Audited) (As restated)
	Notes	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		226,611	234,067
Investment properties		142,800	142,800
Properties under development		188,642	188,702
Goodwill on consolidation of subsidiaries		116,857	125,847
Interests in associates		2,589,812	2,788,652
		<b>3,264,722</b>	3,480,068
<b>CURRENT ASSETS</b>			
Short term investments		17,400	17,800
Properties held for sale		—	4,400
Inventories	8	123,679	126,536
Trade receivables and bill receivables	9	262,699	226,718
Deposits and other receivables		52,651	44,232
Cash and cash equivalents		54,397	93,488
		<b>510,826</b>	513,174
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		102,535	106,573
Trade payables and bill payables	10	278,819	253,128
Tax payable		15,189	35,476
Interest-bearing bank and other borrowings		101,455	114,776
Due to a shareholder	11	16,076	—
		<b>514,074</b>	509,953
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>(3,248)</b>	3,221
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
— page 5		<b>3,261,474</b>	3,483,289

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

31st January, 2002

	31/1/2002 <i>(Unaudited)</i>	31/7/2001 <i>(Audited)</i> <i>(As restated)</i>	
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>			
TOTAL ASSETS LESS CURRENT LIABILITIES			
— page 4		<b>3,261,474</b>	3,483,289
<hr/>			
NON-CURRENT LIABILITIES			
Long term deposits received		<b>(31,625)</b>	(39,875)
Interest-bearing bank and other borrowings		<b>(126)</b>	(2,387)
		<b>(31,751)</b>	(42,262)
		<b>3,229,723</b>	3,441,027
<hr/>			
CAPITAL AND RESERVES			
Share capital		<b>718,855</b>	718,855
Reserves	12	<b>2,324,089</b>	2,539,631
		<b>3,042,944</b>	3,258,486
MINORITY INTERESTS		<b>186,779</b>	182,541
		<b>3,229,723</b>	3,441,027
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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2002

	Six months ended	
	31/1/2002	31/1/2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM		
OPERATING ACTIVITIES	(18,875)	73,406
NET CASH OUTFLOW FROM RETURNS ON		
INVESTMENTS AND SERVICING OF FINANCE	(1,957)	(5,822)
TAXES PAID	(21,872)	(10,829)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING		
ACTIVITIES	1,867	(179,658)
NET CASH OUTFLOW BEFORE FINANCING		
ACTIVITIES	(40,837)	(122,903)
NET CASH INFLOW FROM FINANCING ACTIVITIES	3,353	41,450
DECREASE IN CASH AND CASH EQUIVALENTS	(37,484)	(81,453)
Cash and cash equivalents at beginning of period	74,935	124,846
Exchange realignments	—	(260)
CASH AND CASH EQUIVALENTS AT END OF		
PERIOD	37,451	43,133
ANALYSIS OF BALANCES OF CASH AND CASH		
EQUIVALENTS		
Cash and bank balances	54,397	57,948
Bank overdrafts	(3,822)	(1,513)
Trust receipt loans with maturity of less than three		
months at the acquisition date	(13,124)	(13,302)
	37,451	43,133

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim financial reporting", issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st July, 2001, except that the following new or revised SSAPs and related Interpretation effective for accounting period commenced on or after 1st January, 2001 are adopted for the first time in the preparation of the current period's condensed consolidated interim financial statements:

SSAP 26	:	"Segment reporting"
SSAP 28	:	"Provisions, contingent liabilities and contingent assets"
SSAP 30	:	"Business combinations"
SSAP 31	:	"Impairment of assets"
SSAP 32	:	"Consolidated financial statements and accounting for investments in subsidiaries"
Interpretation 13	:	"Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies of adopting these SSAPs and Interpretation, are summarised as follows:

SSAP 26 prescribes the principles to be applied for financial information by segment. In note 2 to these unaudited condensed consolidated financial statements, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Comparative information has been given.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of the SSAP 28 has had no significant impact on the preparation of these interim financial statements.



**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)**

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. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against reserves. The transitional provisions set out in paragraph 88 of SSAP 30 have been adopted by the Group for goodwill/negative goodwill arose from acquisitions prior to 1st August, 2001, the date when the SSAP was first adopted by the Group, which have been previously eliminated against/taken to reserves had not been retrospectively restated under the SSAP. On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised or negative goodwill which has not been recognised in the profit and loss account and any relevant reserves as appropriate.

In accordance with paragraph 88 of SSAP 30 and Interpretation 13, the Group is required to estimate any impairment loss that arose on goodwill, which was previously eliminated against reserves, in accordance with the requirements of SSAP 31 since the date of acquisition of the subsidiaries and associates. Implementation of this policy is treated as a change in accounting policies in accordance with SSAP 2.

Lai Sun Development Company Limited ("LSD"), a listed associate of the Company has performed an assessment of the fair values of its goodwill eliminated against reserves prior to 1st August, 2001. As a result, LSD has recognised an impairment of goodwill, previously eliminated against reserves, of HK\$62,619,000 which has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. Accordingly, the Group has restated its share of such prior year adjustment of HK\$26,457,000 in both accumulated losses and capital reserve as at 31st July, 2001 (note 11). This prior year adjustment has had no effect on the current period.

In addition, in accordance with the provisions in the new SSAP 30, the Group had revised during the period the estimated useful life of the goodwill arising on the acquisition of a subsidiary, Crocodile Garments Limited, from sixty years to twenty years. Had the estimated life of the goodwill remained unchanged from the previous period, the amortisation charge for the period would have been decreased by approximately HK\$7,653,000.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. Except for the remeasurement of goodwill as stated above, the SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

## 2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution/(absorption) to profit/(loss) from operating activities by principal activities and geographical areas for the six months ended 31st January, 2002 is as follows:

	Six months ended 31/1/2002				Six months ended 31/1/2001			
	(unaudited)				(unaudited)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	External sales	Other Segment revenue	Segment revenue	Segment results	External sales	Other Segment revenue	Segment revenue	Segment results
By activities:								
Manufacture and sale of garments	584,838	—	584,838	16,375	695,147	5,633	700,780	21,539
Property investment	5,753	—	5,753	5,234	7,063	20,709	27,772	18,394
Other operations	5,283	—	5,283	(2,161)	2,850	—	2,850	(1,961)
	<b>595,874</b>	<b>—</b>	<b>595,874</b>	<b>19,448</b>	<b>705,060</b>	<b>26,342</b>	<b>731,402</b>	<b>37,972</b>
Interest income and unallocated other revenue				3,743				33,840
Unallocated expenses				(29,051)				(10,628)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES				<b>(5,860)</b>				<b>61,184</b>

	Six months ended 31/1/2002				Six months ended 31/1/2001			
	(unaudited)				(unaudited)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	External sales	Other Segment revenue	Segment revenue	Segment results	External sales	Other Segment revenue	Segment revenue	Segment results
By geographical areas:								
Hong Kong	434,540	—	434,540	(3,902)	547,417	—	547,417	11,703
Other parts of People's Republic of China ("PRC")	160,837	—	160,837	23,303	146,372	26,342	172,714	27,789
Other geographical areas	497	—	497	47	11,271	—	11,271	(1,520)
	<b>595,874</b>	<b>—</b>	<b>595,874</b>	<b>19,448</b>	<b>705,060</b>	<b>26,342</b>	<b>731,402</b>	<b>37,972</b>
Interest income and unallocated other revenue				3,743				33,840
Unallocated expenses				(29,051)				(10,628)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES				<b>(5,860)</b>				<b>61,184</b>

### 3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Six months ended	
	31/1/2002	31/1/2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation:		
Owned fixed assets	9,686	9,765
Leased fixed assets	46	40
Amortisation of goodwill on acquisition of subsidiaries	8,990	1,337
Unrealised losses/(gains) on short term investment	400	(3,121)
Loss on disposal of properties held for sale	100	—
Severance payments*	20,646	3,241

and after crediting:

Gain on disposal of subsidiaries	(1,610)	—
Realised gain on the disposal of a subsidiary#	—	(20,709)
Forfeited contributions in respect of retirement scheme contributions	—	(18,163)

\* Item is included in other operating expenses, net.

# In 1998, Kingscord Investment Limited, a subsidiary of the Company, disposed of its interest in Shanghai Wayee Real Estate Development Co., Ltd. to Lai Fung Holdings Limited ("Lai Fung"), a then subsidiary of LSD. Relevant portions of the gains arising from this transaction were released upon the deemed disposal of Lai Fung by LSD in 2001.

### 4. FINANCE COSTS

Balances represent interest on bank loans, overdrafts and other borrowings, including the amount due to a shareholder, wholly repayable within five years.

## 5. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period.

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

	Six months ended	
	31/1/2002	31/1/2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for tax for the period:		
Hong Kong	—	2,176
Outside Hong Kong	1,585	817
	<b>1,585</b>	<b>2,993</b>
Associates:		
Hong Kong	4,577	7,957
Outside Hong Kong	(200)	—
	<b>4,377</b>	<b>7,957</b>
Tax charge for the period	<b>5,962</b>	<b>10,950</b>

## 6. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period HK\$214,459,000 (2001: HK\$633,928,000) and the number of 1,437,709,710 (2001: 1,437,709,710) ordinary shares in issue during the period.

The diluted loss per share for the current and prior periods has not been calculated because there were no diluting events during these periods.

## 7. RELATED PARTY TRANSACTIONS

Save as disclosed in note 14, the Group had the following material transactions with related parties during the period.

	Six months ended	
	31/1/2002	31/1/2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expense paid and payable to a shareholder	(i) 130	1,151
Rental expenses paid and payable to an associate	(ii) 5,373	5,739

(i) Details of the amount due to a shareholder are included in note 11.

(ii) Rental expenses were charged by the associate pursuant to the respective lease agreements.

## 8. INVENTORIES

	<b>31/1/2002</b> <i>(Unaudited)</i> <b>HK\$'000</b>	31/7/2001 <i>(Audited)</i> <b>HK\$'000</b>
Raw materials	<b>10,147</b>	12,780
Work in progress	<b>840</b>	2,842
Finished goods	<b>108,823</b>	110,914
Goods in transit	<b>3,869</b>	—
	<b>123,679</b>	126,536

The carrying amounts of the Group's inventories included in the above that are carried at net realisable value were HK\$30,326,000 (at 31st July, 2001: HK\$22,194,000).

## 9. TRADE RECEIVABLES AND BILL RECEIVABLES

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

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

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

The ageing analysis of trade receivables and bill receivables as at 31st January, 2002 is as follows:

	<b>31/1/2002</b> <i>(Unaudited)</i> <b>HK\$'000</b>	31/7/2001 <i>(Audited)</i> <b>HK\$'000</b>
Current to 90 days	<b>152,919</b>	188,001
91 days to 180 days	<b>47,047</b>	13,191
181 days to 365 days	<b>37,341</b>	5,711
Over 365 days	<b>25,392</b>	19,815
	<b>262,699</b>	226,718

## 10. TRADE PAYABLES AND BILL PAYABLES

The ageing analysis of trade payables and bill payables at 31st January, 2002 is as follows:

	31/1/2002 (Unaudited) HK\$'000	31/7/2001 (Audited) HK\$'000
Current to 90 days	157,881	192,292
91 days to 180 days	48,594	27,079
181 days to 365 days	39,125	7,124
Over 365 days	33,219	26,633
	<b>278,819</b>	<b>253,128</b>

## 11. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest bearing at the best lending rate quoted by a designated bank and is due for repayment on 30th November, 2002.

## 12. RESERVES

	Share premium account HK\$'000	Fixed asset revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st July, 2001 and 1st August, 2001, as previously reported (Audited)	1,119,738	51,912	148,729	4,429,012	57	29,755	(3,239,572)	2,539,631
Prior year adjustment:								
SSAP 30 — impairment of goodwill recognised to profit and loss account	—	—	—	26,457	—	—	(26,457)	—
At 31st July, 2001 and 1st August, 2001, as restated (Unaudited)	1,119,738	51,912	148,729	4,455,469	57	29,755	(3,266,029)	2,539,631
Release upon disposal of subsidiaries	—	—	—	(1,610)	—	—	—	(1,610)
Exchange realignments:								
Subsidiaries	—	—	—	—	—	(39)	—	(39)
Associates	—	—	—	—	—	566	—	566
Net loss for the year	—	—	—	—	—	—	(214,459)	(214,459)
At 31st January, 2002 (Unaudited)	1,119,738	51,912	148,729	4,453,859	57	30,282	(3,480,488)	2,324,089

### 13. CONTINGENT LIABILITIES

There is no material change in contingent liabilities since the last annual report date.

### 14. POST BALANCE SHEET EVENT

On 7th December, 2001, the Company, Lai Sun Development Company Limited ("LSD"), a 42.25%-owned associate of the Company, and Mr. Lim Por Yen ("Mr. Lim"), an executive director and a substantial shareholder of the Company entered into an agreement (the "Agreement") pursuant to which:

- LSD agreed to sell to the Company 779,958,912 shares in the capital of Lai Fung Holdings Limited ("Lai Fung"), representing approximately 25.40 per cent. of the existing issued share capital of Lai Fung (the "Lai Fung Transaction"), for a consideration of HK\$225,200,000. This consideration shall be satisfied by the execution by the Company and delivery to LSD, on completion of the Agreement (the "Completion"), of a loan note (the "LSG Loan Note") to be issued on Completion by the Company in favour of LSD as consideration for the Lai Fung Transaction in an aggregate principal amount of HK\$225,200,000;
- Mr. Lim agreed to sell to LSD 125,450,000 shares in the capital of Asia Television Limited ("ATV"), representing approximately 16.08 per cent. of the existing issued share capital of ATV for a consideration of HK\$225,200,000 (the "ATV Transaction"); and
- LSD agreed to assign to Mr. Lim (or his nominee) its rights and benefits in respect of the LSG Loan Note in consideration of which the liability of LSD to Mr. Lim in respect of the consideration for the ATV Transaction, in the amount of HK\$225,200,000, would be satisfied and discharged.
- The Completion is conditional upon, among other things, (a) each of LSD and the Company having convened an extraordinary general meeting at which resolutions shall have been duly passed by the independent shareholders of LSD and the Company, respectively, to approve, among other things, the transactions in so far as they are applicable to LSD and the Company respectively; and (b) the obtaining of relevant consent from the Hong Kong Broadcasting Authority.

On 7th February, 2002, each of LSD and the Company convened an extraordinary general meeting at which resolutions for approving such transactions were duly passed by the independent shareholders of LSD and the Company, respectively. As of the date of this report, the consent from the Hong Kong Broadcasting Authority and certain other condition are still outstanding.

Upon completion of the Lai Fung Transaction, a negative goodwill of approximately HK\$975 million will arise in the consolidated balance sheet of the Company under the equity method of accounting. The completion of the Lai Fung Transaction will not have material impact on the net asset value of the Group.

**15. COMPARATIVE AMOUNTS**

Deficits of investment property revaluation reserve of HK\$206,452,000 previously disclosed on the face of the profit and loss account have been reclassified as share of losses less profits of associates to conform with the presentation adopted in the annual financial statements for the year ended 31st July, 2001.

In addition, as further explained in note 1 to the financial statements, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been reclassified to conform with the current period's presentation.



## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the financial year ending 31st July, 2002. No interim dividend was declared in respect of the previous corresponding period.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The Group reported an unaudited net loss attributable to shareholders of HK\$214.5 million for the half-year ended 31st January, 2002, compared with the loss of HK\$633.9 million for the previous corresponding period. Turnover for the period fell by 15.5% compared with the previous corresponding period from HK\$705.1 million to HK\$595.9 million mainly due to lower turnover reported by the 54.93%-owned subsidiary, Crocodile Garments Limited ("CGL"), and the garment operations of the Company. However, the gross profit ratio had improved from 31.3% to 32.6%.

The operating results of the garment operation of the Company had been adversely affected by the scaling down of the manufacturing operation of the Company in Hong Kong. This had resulted in a charge to the profit and loss account for the period under review for stocks written-off and for severance payments to employees. Although CGL continued to contribute profit, the overall consolidated results of the Company had been affected after accounting for the results of Lai Sun Development Company Limited ("LSD"), the principal associated company.

LSD reported an unaudited net loss attributable to shareholders of HK\$289.6 million for the half-year under review. The loss was attributable to lower rental income, overall interest expenses and LSD's share of the loss reported by its principal associate, eSun Holdings Limited, amounting to HK\$61.6 million.

The business operations of LSD had been affected by the repercussions of the "9-11" event in the USA. Although the low interest rate environment had benefited the residential property sector in Hong Kong and its performance had been relatively resilient, office rentals had been in a downward trend as a result of a noticeable slowdown in economic activities during the last quarter of 2001. LSD recorded a 15% decline in net rental income but overall occupancy of its properties remained above 90%. On the property development front, demolition work on the Furama Hotel Hong Kong in which LSD has a 30% interest commenced in December 2001. Foundation work for the Furama Court in Tsimshatsui, Kowloon is nearing

completion, with pre-sale of the project scheduled for early 2003. The hotel operation of LSD in Hong Kong had also been affected during the period under review.

eSun Holdings Limited ("eSun"), an associate of LSD, reported an audited net loss attributable to shareholders of HK\$181.7 million for the year ended 31st December, 2001. The loss was partly attributable to the discontinuation of contributions from the hotel and restaurant operations of eSun, which had been the biggest contributor of turnover and operating profit for the year 2000. In addition, a loss of HK\$65.85 million on disposal of eSun group's holding in SUNDAY Communications Limited and other short-term investments also had an unfavourable impact on the results of eSun.

Since the last quarter of 2000, eSun had increased in stages its investment in satellite television operation and film and entertainment production. Performance of its Internet-related investments had been monitored closely, resulting in the discontinuation of the operation of a website during 2001.

Lai Fung Holdings Limited ("Lai Fung") reported an unaudited net loss attributable to shareholders of HK\$10.4 million for the half-year ended 31st January, 2002, which was an improvement on the loss of HK\$39.2 million recorded for the previous corresponding period. Turnover increased by 4% whilst finance costs had been reduced by 26% following the successful completion of its refinancing exercise in mid-2001.

On 7th December, 2001, the Company, LSD and Mr. Lim Por Yen, a substantial shareholder of the Company, entered into an agreement for the reorganisation of the Company and LSD, pursuant to which LSD agreed to dispose of its entire 25.4% interest in Lai Fung to the Company for a consideration of HK\$225.2 million, in return for a 16.08% interest in Asia Television Limited ("ATV") held by Mr. Lim Por Yen for the same consideration. Subject to completion of this reorganisation, the Company's holding in Lai Fung will be increased to 46.04% and LSD will increase its interest in ATV to 32.75%.

CGL reported an unaudited net profit attributable to shareholders of HK\$9.47 million for the half-year under review, compared with the profit of HK\$10.7 million for the previous corresponding period. Despite a decline in turnover of around HK\$57.7 million in the period under review due to lower sales in Hong Kong, the shortfall in earnings had been partly compensated for by the improvement in gross profit margin to 53.4% from 49.6% in the previous corresponding period.

Total sales of CGL in the Mainland of China during the period increased by 9% and the volume had exceeded retail sales in Hong Kong. CGL had been focusing on the Mainland market with a view to further expanding its sales network. Retail sales in Hong Kong fell by 30% compared with the previous period but the adverse impact had been partially minimised through tight control on operating costs.

### **Prospects**

Following the scaling down of the garment manufacturing operation, the Company will reallocate its resources to other suitable investments. Subject to completion of the reorganisation mentioned above involving the acquisition by the Company of the entire 25.4% interest of LSD in Lai Fung, the interests of the Company and of LSD in Lai Fung and ATV respectively will be consolidated and held by a single entity in each case. This would achieve the goal of more clearly delineating the business focus of the Company and of LSD, thus enabling a better appreciation of the values of their respective businesses.

Hong Kong is still undergoing an adjustment process as it tries to regain its past competitive advantage over other economies in the rest of Asia. It is therefore unlikely for now that real estate prices would make any major headway. The residential property sector should be more promising but office rentals would remain under pressure, although the pace and extent of downward adjustment are expected to be more subdued. LSD's results will be heavily dependent on future changes to office rental levels and interest rates.

LSD will be placing greater efforts in procuring hotel management contracts in Asia with particular emphasis on Hong Kong and the Mainland China, through its subsidiary, Furama Hotels and Resorts International Limited.

eSun aims to be a leading Chinese language movie and television programme content provider for distribution through terrestrial, cable TV and satellite channels primarily to viewers in the Greater China region and to Chinese-speaking viewers around the world. It is undergoing a transformation but solid foundations have been laid.

The real estate markets in major cities in the Mainland of China have experienced a reasonable recovery over the past six months as both residential and commercial rentals have shown a steady uptrend. In response to market demand, certain renovation works are being carried out at Hong Kong Plaza in Shanghai to provide an additional 80 service apartments for rental by mid-2002. It is anticipated that improvement in rental income from properties in Shanghai and Guangzhou and proceeds from pre-sale of New Trend Plaza and Phase III of Eastern Place in Guangzhou will increase the turnover and return of Lai Fung.

CGL intends to further develop its menswear line to meet the ever-evolving demands of consumers on the Mainland and plans are on hand to actively promote leisure and casual wear for men. At the same time, CGL is making preparations for the introduction of a new ladies wear line. It expects this new line to generate a steady income for the company starting from the second half of this financial year.

### **Liquidity and Financial Resources**

As at 31st January, 2002, total bank and other borrowings, inclusive of the amount due to a shareholder, and consolidated net assets of the Group amounted to HK\$118 million and HK\$3,043 million, respectively. The debt to equity ratio as expressed as a percentage of total bank and other borrowings to total net assets, as at that date was relatively low at around 3.9%.

Substantially all of the total bank and other borrowings of HK\$118 million as at 31st January, 2002 were repayable or renewable within one year.

The Group's bank borrowings were mainly in HK dollar and US dollar thereby reducing its exchange risk exposure. The majority of the bank and other borrowings were maintained as floating rate debts. Attention will be paid to the interest rate movements such that appropriate action will be taken by the Group when necessary to employ hedging instruments against exposure to interest volatilities.

As at 31st January, 2002, certain investment properties with carrying value amounting to approximately HK\$139 million and certain land and building of carrying value amounting to approximately HK\$193 million were pledged to banks to secure banking facilities granted to the Group. In addition, 120,000,000 ordinary shares of LSD and 96,000,000 ordinary shares of CGL held by the Group were pledged to a bank to secure banking facilities granted to the Group.

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

### **Employees and Remuneration Policies**

The Group employed a total of approximately 1,200 (as at 31st July, 2001: 1,700) employees as at 31st January, 2002. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

## Contingent Liabilities

Details of contingent liabilities are set out in note 12 to condensed consolidated financial statements.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st January, 2002, the interests of the Directors and chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Code for Securities Transactions by Directors adopted by the Company (the "Code") were as follows:

### (1) The Company

	Number of Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	484,991,750	Nil	Nil	Nil	484,991,750
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Nil	110,794,951
Chiu Wai	199,600	Nil	Nil	Nil	199,600
U Po Chu	3,669,000	Nil	Nil	Nil	3,669,000
Lai Yuen Fong	4,451,790	Nil	Nil	Nil	4,451,790

### (2) Associated Corporations

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

	Number of LSD Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	197,859,550	Nil	1,582,869,192	Nil	1,780,728,742
			(Note)		
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Nil	10,099,585
Chiu Wai	195,500	Nil	Nil	Nil	195,500
U Po Chu	633,400	Nil	Nil	Nil	633,400
Lam Wai Kei, Vicky	100,000	Nil	Nil	Nil	100,000

Note: The Company and its wholly-owned subsidiary beneficially owned 1,582,869,192 ordinary shares in LSD. Mr. Lim Por Yen was deemed to be interested in such shares by virtue of his interest (and those of his associates) of approximately 34.3% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Madam U Po Chu

and Madam Lai Yuen Fong were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.

(b) *Lai Fung Holdings Limited ("Lai Fung")*

	Number of Lai Fung Ordinary Shares Held				Total
	Personal	Family	Corporate	Other	
	Interests	Interests	Interests	Interests	
Lim Por Yen	Nil	Nil	1,413,700,289	Nil	1,413,700,289

*(Note)*

*Note:* Mr. Lim Por Yen was deemed to be interested in 1,413,700,289 shares in Lai Fung by virtue of his interest (and those of his associates) of approximately 34.3% in the issued share capital of the Company which, together with its wholly-owned subsidiary, beneficially owned 633,741,377 shares in Lai Fung. Further, the Company and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of Lai Sun Development Company Limited which beneficially owned 779,958,912 shares in Lai Fung. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Madam Lai Yuen Fong were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.

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

	Number of CGL Ordinary Shares Held				Total
	Personal	Family	Corporate	Other	
	Interests	Interests	Interests	Interests	
Lim Por Yen	Nil	Nil	338,982,809	Nil	338,982,809
					<i>(Note)</i>
Lee Po On	3,410,000	Nil	Nil	Nil	3,410,000

*Note:* The Company and its wholly-owned subsidiary beneficially owned 338,982,809 shares in CGL. Mr. Lim Por Yen was deemed to be interested in such shares by virtue of his interest (and those of his associates) of approximately 34.3% in the issued share capital of the Company. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Madam Lai Yuen Fong were Directors of the Company and held an interest of approximately 42% in aggregate in the issued share capital of the Company.

In addition to the above, a Director of the Company held a non-beneficial interest in the share capital of a subsidiary of the Company as nominee shareholder, for the purpose of complying with the statutory requirement for a minimum number of shareholders for such subsidiary.

Save as disclosed above, as at 31st January, 2002, none of the Directors or chief executive of the Company or their respective associates had any interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 or Part 1 of the Schedule to that Ordinance) or the Code or which were required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31st January, 2002, the following party was interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance:

	<b>Number of Shares Held</b>
Mr. Lim Por Yen	493,112,540 <i>(Note)</i>

*Note:* Mr. Lim Por Yen's interest in the said 493,112,540 shares in the Company included 4,451,790 shares and 3,669,000 shares in the Company respectively held by Madam Lai Yuen Fong and Madam U Po Chu, the spouses of Mr. Lim Por Yen, who were also deemed under the SDI Ordinance to have interest in Mr. Lim Por Yen's interest in the share capital of the Company.

Save for the interests disclosed above, 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 31st January, 2002.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 31st January, 2002, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **CODE OF BEST PRACTICE**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company. The Interim Report has been reviewed by the Audit Committee of the Company.

By Order of the Board

**Lim Por Yen**

*Chairman and Managing Director*

Hong Kong, 19th April, 2002