

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31st July, 2004.

## PRINCIPAL ACTIVITIES

During the year, the Group focused on property development for sale, property investment, investment in and the operation of hotels and restaurants and investment holding.

The principal activities of the Company for the year consisted of property investment, property development for sale and investment holding.

Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st July, 2004 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 35 to 102.

The directors do not recommend the payment of a final ordinary dividend for the year ended 31st July, 2004.

No interim ordinary dividend had been paid by the Company for the year.

## DIRECTORS

The directors of the Company who were in office during the year and those at the date of this report are as follows:

Lim Por Yen (*Honorary Chairman*)

Lam Kin Ngok, Peter (*Chairman and President*)

Lau Shu Yan, Julius

Wu Shiu Kee, Keith

Lam Kin Ming

U Po Chu

Chiu Wai

Shiu Kai Wah

David Tang\*

Lam Bing Kwan\*

Leung Shu Yin, William\*

(*appointed on 30th September, 2004*)

\* *Independent non-executive directors*

## Report of the Directors

### **DIRECTORS (continued)**

Mr. Leung Shu Yin, William was appointed an independent non-executive director of the Company on 30th September, 2004. In accordance with Article 93 of the Company's Articles of Association, Mr. Leung retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 102 of the Company's Articles of Association, Mr. Lim Por Yen, Madam U Po Chu and Mr. Wu Shiu Kee, Keith retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election at the said meeting.

### **DIRECTORS' SERVICE CONTRACTS**

None of the directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in notes 6, 17 and 19 to the financial statements, no director had a material interest, whether direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong.

Madam U Po Chu held an interest and directorship in a company engaged in the business of investment in and the operation of restaurants in Hong Kong.

As the board of the Company (the "Board") is independent from the boards of the aforesaid companies and none of the above directors of the Company can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

### **CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS**

At no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

#### Executive Directors

**Mr. Lim Por Yen**, Honorary Chairman, aged 89, is the founder of the Lai Sun Group and has been an executive director of the Company since June 1959. He is also the chairman and managing director of Lai Sun Garment (International) Limited (“LSG”) and the chairman of Crocodile Garments Limited and Lai Fung Holdings Limited. LSG is the controlling shareholder of the Company. Mr. Lim first became involved in the property and investment business in the mid-1950’s and has over 60 years’ experience in the garment business. He was admitted to the honorary university fellowship of the University of Hong Kong in December 2003. Mr. Lim was one of the Hong Kong Affairs Advisers to the People’s Republic of China and is a founder member of The Better Hong Kong Foundation.

**Mr. Lam Kin Ngok, Peter**, Chairman and President, aged 47, has been an executive director of the Company since June 1977. He is also a deputy chairman of Lai Sun Garment (International) Limited (“LSG”), and an executive director of eSun Holdings Limited, Crocodile Garments Limited and Lai Fung Holdings Limited. LSG is the controlling shareholder of the Company. Mr. Lam has extensive experience in property and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

**Mr. Lau Shu Yan, Julius**, aged 48, joined the Company as an executive director in July 1991. Mr. Lau has over 15 years of experience in the property and securities industries, holding senior management positions. Prior to his current appointment, he was a director of Jones Lang Wootton Limited and subsequently Jardine Fleming Broking Limited. Mr. Lau is a director and a member of the Executive Committee of Real Estate Developers Association of Hong Kong.

**Mr. Wu Shiu Kee, Keith**, aged 41, joined the Lai Sun Group in November 1997 and was appointed an executive director of the Company on 1st January, 1998. He has over 17 years’ experience in corporate finance, investment research and asset management. Prior to his appointment in the Lai Sun Group, Mr. Wu served as a director and head of Hong Kong/China Research for Peregrine Brokerage Limited. He holds a Bachelor in Science degree from the University of Toronto and a Master in Science degree from Stanford University.

#### Non-Executive Directors

**Mr. Lam Kin Ming**, aged 67, has been a director of the Company since June 1959. Mr. Lam is also the deputy chairman of Lai Sun Garment (International) Limited (“LSG”), Crocodile Garments Limited and Lai Fung Holdings Limited, and a non-executive director of eSun Holdings Limited. Mr. Lam is also an alternate director to certain directors of Lai Fung Holdings Limited. LSG is the controlling shareholder of the Company. Mr. Lam has been involved in the management of garment business since 1958. He is a son of Mr. Lim Por Yen and the elder brother of Mr. Lam Kin Ngok, Peter.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

#### Non-Executive Directors (continued)

**Madam U Po Chu**, aged 79, has been a director of the Company since December 1993. She is also a non-executive director of Lai Sun Garment (International) Limited (“LSG”), eSun Holdings Limited and Crocodile Garments Limited, and an executive director of Lai Fung Holdings Limited. LSG is the controlling shareholder of the Company. Madam U has over 55 years’ experience in the garment manufacturing business and had been involved in the printing business in the mid-1960’s. In the early 1970’s, she started to expand the business to fabric bleaching and dyeing and in the late 1980’s became involved in property development and investment. In 2000, Madam U began investing in the catering industry in Hong Kong. She is Mr. Lim Por Yen’s wife.

**Mr. Chiu Wai**, aged 73, has been a director of the Company since December 1993. Mr. Chiu is also a non-executive director of Lai Sun Garment (International) Limited (“LSG”), Lai Fung Holdings Limited, eSun Holdings Limited and Crocodile Garments Limited. LSG is the controlling shareholder of the Company. Mr. Chiu has over 45 years’ experience in production management.

**Mr. Shiu Kai Wah**, aged 72, has been a director of the Company since December 1993. He is also an executive director of Lai Sun Garment (International) Limited (“LSG”) and a non-executive director of Lai Fung Holdings Limited, eSun Holdings Limited and Crocodile Garments Limited. LSG is the controlling shareholder of the Company. Mr. Shiu has over 30 years’ experience in the management of garment business.

**Mr. David Tang**, aged 50, is an independent non-executive director of the Company. He is the founder of The China Clubs (in Hong Kong, Beijing and Singapore), Shanghai Tang Stores and The Pacific Cigar Company Ltd. He is also a director of First Pacific Company Ltd. in Hong Kong. In community service, he is the chairman of The Hong Kong Cancer Fund and president of the Hong Kong Down Syndrome Association. He holds an Honours Degree in Philosophy and Logic. In 1983/84, he taught at Peking University.

**Mr. Lam Bing Kwan**, aged 55, was appointed an independent non-executive director of the Company in July 2002. 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 non-executive director of Sino-i Technology Limited and South Sea Holding Company Limited, and an independent non-executive director of Lai Fung Holdings Limited and eForce Holdings Limited, all listed on the Main Board of The Stock Exchange of Hong Kong Limited.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(continued)

### Directors (continued)

#### Non-Executive Directors (continued)

**Mr. Leung Shu Yin, William**, aged 55, was appointed an independent non-executive director of the Company in September 2004. Mr. Leung is a certified public accountant, a member of the Hong Kong Securities Institute and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is practising as a practising director of several certified public accountants' firms in Hong Kong and is also an independent non-executive director of Lai Sun Garment (International) Ltd. (the controlling shareholder of the Company) and several companies listed in Hong Kong.

#### Senior Management

**Mr. Tam Kin Man, Kraven**, aged 56, is a senior vice president of the Company. He first joined the Lai Sun Group in 1989 and is currently the chief executive of Furama Hotel Enterprises Limited. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has over 28 years' experience in property development, investment and management. He also has over 15 years' experience in the hospitality business including hotels, restaurants and clubs in Asia and North America.

**Mr. Alan Tse**, aged 41, joined the Lai Sun Group in June 1989. Mr. Tse has been the financial controller of the Company since October 1990. Mr. Tse is a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants with over 19 years' financial experience.

**Mr. Yeung Kam Hoi**, aged 55, joined the Company as group company secretary in March 1998. Prior to his current appointment, Mr. Yeung served at various times as the company secretary of a number of listed companies in Hong Kong for over 10 years. He has been an associate member of The Institute of Chartered Secretaries and Administrators since 1979 and is also an associate member of The Hong Kong Institute of Company Secretaries and a member of Hong Kong Securities Institute.

# Report of the Directors

## DIRECTORS' INTERESTS

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

### (1) The Company

Name of Director	Long positions in the shares				Total	Percentage
	Personal Interests	Family Interests	Corporate Interests	Capacity		
Lim Por Yen	197,859,550	633,400 (Note 1)	1,582,869,192 (Note 2)	Beneficial owner	1,781,362,142	47.55%
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Beneficial owner	10,099,585	0.27%
Lau Shu Yan, Julius	1,200,000	Nil	Nil	Beneficial owner	1,200,000	0.03%
Wu Shiu Kee, Keith	200,000	Nil	Nil	Beneficial owner	200,000	0.01%
U Po Chu	633,400	1,780,728,742 (Note 3)	Nil	Beneficial owner	1,781,362,142	47.55%
Chiu Wai	195,500	Nil	Nil	Beneficial owner	195,500	0.01%

#### Notes:

- Mr. Lim Por Yen was deemed to be interested in 633,400 shares by virtue of the interest in such shares of his spouse, Madam U Po Chu.
- Lai Sun Garment (International) Limited (“LSG”) and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares. Mr. Lim Por Yen was deemed to be interested in such shares by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of LSG and held an interest of approximately 42% in aggregate in the issued share capital of LSG.
- Madam U Po Chu was deemed to be interested in 1,780,728,742 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporation

#### eSun Holdings Limited ("eSun")

Name of Director	Personal Interests	Long positions in shares of eSun			Total	Percentage
		Family Interests	Corporate Interests	Capacity		
Lim Por Yen	Nil	Nil	285,512,791 (Note 1)	Beneficial owner	285,512,791	42.54%
U Po Chu	Nil	285,512,791 (Note 2)	Nil	Beneficial owner	285,512,791	42.54%

*Notes:*

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

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

### ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

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

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	1,582,869,192	42.25%
Lim Por Yen	Beneficial owner	Personal, Family and Corporate	1,781,362,142	47.55% (Note 2)
U Po Chu	Beneficial owner	Personal and Family	1,781,362,142	47.55% (Note 3)
Lai Yuen Fong	Beneficial owner	Family	1,781,362,142	47.55% (Note 4)
Nice Cheer Investment Limited ("Nice Cheer")	Beneficial owner	Corporate	781,346,935	20.86%
Xing Feng Investments Limited ("Xing Feng")	Beneficial owner	Corporate	781,346,935	20.86% (Note 5)
Chen Din Hwa	Beneficial owner	Corporate	781,346,935	20.86% (Notes 5 and 6)
Chen Yang Foo Oi	Beneficial owner	Family	781,346,935	20.86% (Note 7)

Notes:

1. Personal, family and corporate denote personal interest, family interest and corporate interest respectively.
2. Mr. Lim Por Yen was deemed to be interested in 1,582,869,192 shares by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of LSG. Mr. Lim Por Yen was also deemed to be interested in the 633,400 shares owned by his spouse, Madam U Po Chu.
3. Madam U Po Chu was deemed to be interested in 1,780,728,742 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
4. Madam Lai Yuen Fong was deemed to be interested in 1,781,362,142 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
5. Xing Feng was taken to be interested in 781,346,935 shares beneficially owned by Nice Cheer due to its corporate interests therein.
6. Mr. Chen Din Hwa was taken to be interested in 781,346,935 shares by virtue of his corporate interests in Nice Cheer.
7. Madam Chen Yang Foo Oi was deemed to be interested in 781,346,935 shares by virtue of the interest in such shares of her spouse, Mr. Chen Din Hwa.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

(continued)

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## DETAILS OF PROPERTIES

The principal investment properties of the Group are as follows:

	Location	Group interest	Tenure	Use
1.	Cheung Sha Wan Plaza 833 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong (New Kowloon Inland Lot No. 5955)	100%	The property is held for a term expiring on 30th June, 2047	Office/ commercial/ carpark
2.	Causeway Bay Plaza 2, 463–483 Lockhart Road, Causeway Bay, Hong Kong (Section J and the Remaining Portions of Sections D, E, G, H, K, L, M and O, Subsection 4 of Section H and the Remaining Portion of Inland Lot No. 2833)	100%	The property is held for a term of 99 years commencing on 15th April, 1929 and renewable for a further term of 99 years	Office/ commercial/ carpark
3.	Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon, Hong Kong (New Kowloon Inland Lot No. 5984)	100%	The property is held for a term of 99 years less the last 3 days thereof from 1st July, 1898, and was renewed for a term of another 50 years	Office/ commercial/ carpark

All the Group's investment properties are situated in Hong Kong and are held under medium or long term leases.

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

The principal properties under development of the Group are as follows:

	Location	Group interest	Stage of construction	Expected completion date	Expected use	Gross floor area
1.	Kimberley 26 No. 26 Kimberley Road Tsim Sha Tsui Kowloon Hong Kong	50%	Occupation permit issued, application for certificate of compliance under processing	End 2004	Commercial/service apartments	The total site area is 960 sq.m. The total gross floor area will be approximately 10,600 sq.m.
2.	AIG Tower 1 Connaught Road Central Hong Kong	10%	Superstructure work in progress	Mid 2005	Office	The total site area is 2,269 sq.m. The total gross floor area will be approximately 41,700 sq.m.
3.	Rolling Hills (Phase II) 2094 in DD105, Ngau Tam Mei Yuen Long, New Territories, Hong Kong	50%	Construction work practically completed, application for occupation permit under processing	First quarter 2005	Residential	The total site area is approximately 19,600 sq.m. The total gross floor area will be approximately 7,110 sq.m.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 14 and 15, respectively, to the financial statements. Further details of the Group's investment properties are set out on page 24.

## SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 31 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

# Report of the Directors

## DISTRIBUTABLE RESERVES

At 31st July, 2004, the Company did not have any reserves for distribution, in accordance with the provisions of Section 79B of the Companies Ordinance.

## DONATIONS

During the year, the Group made charitable contributions totalling HK\$689,000.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and adjusted as appropriate, is set out below.

### Results

	Year ended 31st July,				
	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)
TURNOVER	<u>2,109,513</u>	<u>906,590</u>	<u>934,720</u>	<u>1,899,862</u>	<u>4,659,663</u>
LOSS BEFORE TAX	<u>(59,564)</u>	<u>(404,488)</u>	<u>(1,845,572)</u>	<u>(1,096,672)</u>	<u>(3,586,818)</u>
Tax	<u>74,505</u>	<u>(45,466)</u>	<u>(45,295)</u>	<u>(36,564)</u>	<u>(4,272)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>14,941</u>	<u>(449,954)</u>	<u>(1,890,867)</u>	<u>(1,133,236)</u>	<u>(3,591,090)</u>
Minority interests	<u>(54,254)</u>	<u>(26,612)</u>	<u>(22,987)</u>	<u>(9,031)</u>	<u>758,192</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(39,313)</u>	<u>(476,566)</u>	<u>(1,913,854)</u>	<u>(1,142,267)</u>	<u>(2,832,898)</u>

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued)

### Assets, liabilities and minority interests

	As at 31st July,				
	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)
Fixed assets	1,351,063	1,837,653	1,294,943	1,312,728	1,371,567
Investment properties	3,207,980	4,503,410	4,987,860	6,224,870	9,478,130
Properties under development	1,424	1,400	116,592	160,754	3,571,007
Goodwill	8,583	—	—	—	—
Interests in associates	1,153,326	966,080	2,082,375	2,026,771	1,948,659
Interests in jointly controlled entities	—	—	—	—	50,127
Long term investments	280,963	357,791	173,531	539,307	1,018,910
Long term prepayment	—	—	194,000	194,000	—
Pledged bank balances and time deposits	—	—	70,053	—	—
Deferred tax assets	—	—	—	—	749
Pension scheme assets	—	18,298	—	—	—
Current assets	766,751	386,620	394,684	805,129	2,044,096
<b>TOTAL ASSETS</b>	<b>6,770,090</b>	<b>8,071,252</b>	<b>9,314,038</b>	<b>11,263,559</b>	<b>19,483,245</b>
Current liabilities	(6,430,397)	(8,040,621)	(6,587,485)	(1,762,276)	(3,633,586)
Deferred tax	(34,149)	(53,177)	(31,542)	(26,054)	(449,907)
Long term rental deposits received	(29,122)	(40,294)	(62,981)	(50,707)	(73,629)
Interest-bearing bank and other borrowings	—	—	(1,493,000)	(3,128,335)	(2,575,890)
Provision for premium on loan repayment	—	—	(52,500)	(17,500)	—
Provision for premium on bonds redemption	—	—	—	(473,145)	(354,081)
Long term bonds payable	—	—	—	(740,053)	(735,853)
Convertible bonds	—	—	—	(965,287)	(1,888,324)
Provision for premium on convertible note redemption	—	—	—	—	(21,667)
Convertible note	—	—	—	—	(600,000)
<b>TOTAL LIABILITIES</b>	<b>(6,493,668)</b>	<b>(8,134,092)</b>	<b>(8,227,508)</b>	<b>(7,163,357)</b>	<b>(10,332,937)</b>
<b>MINORITY INTERESTS</b>	<b>(392,533)</b>	<b>(355,477)</b>	<b>(348,747)</b>	<b>(360,621)</b>	<b>(3,091,149)</b>
<b>NET ASSETS/(DEFICIENCY IN ASSETS)</b>	<b>(116,111)</b>	<b>(418,317)</b>	<b>737,783</b>	<b>3,739,581</b>	<b>6,059,159</b>

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted to 63% of the total sales for the year and sales to the largest customer included therein amounted to 57% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13")

### (A) Financial assistance and guarantees to affiliated companies (Paragraph 13.16 of Chapter 13)

At 31st July, 2004, there were 3,746,002,320 shares of the Company (the "Shares") in issue. Based on the average closing price of the Shares of HK\$0.1132 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31st July, 2004, the total market capitalisation (the "Total Market Capitalisation") of LSD was HK\$424,047,463.

In compliance with paragraph 13.16 of Chapter 13, details of the financial assistance and guarantees given for facilities granted to the following affiliated companies of LSD at 31st July, 2004 which in aggregate has exceeded 8% of the Total Market Capitalisation are set out below:

Name of affiliated companies	Percentage of capital held	Financial assistance HK\$'000 (Note a)	Guarantees given for banking facilities granted HK\$'000	Total HK\$'000	Notes
Barnwood Limited	50	902	—	902	(c)
Bushell Limited	50	—	215,000	215,000	(b)
Capital Property Company Limited	24.5	29,274	—	29,274	(c)
Easlin Corporation	20	27,181	—	27,181	(c)
Giant Riches Limited	50	890	—	890	(d)
Giant Riches Mortgage Limited	50	529	—	529	(e)
Hillfield Trading Limited	50	461,470	—	461,470	(f)
JDL International Limited	50	1,574	—	1,574	(c)
Kippford Enterprises Limited	50	52,826	52,000	104,826	(b), (g)
Majestic Hotel Enterprises Limited and Majestic Centre Limited	50	—	250,000	250,000	(j)
Mandy Investment Company Limited	40	630	—	630	(g)
Modern Focus Limited	50	7,589	—	7,589	(g)
Naples Investments Limited	50	107,830	—	107,830	(h)
Orwell Investments Pte Ltd	50	47,336	—	47,336	(i)
Rich Vision Limited	50	12,374	—	12,374	(c)
		<u>750,405</u>	<u>517,000</u>	<u>1,267,405</u>	

# Report of the Directors

## DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES (“CHAPTER 13”) (continued)

### (A) Financial assistance and guarantees to affiliated companies (Paragraph 13.16 of Chapter 13) (continued)

*Notes:*

- (a) All balances due are unsecured, non-interest bearing and have no fixed terms of repayment.
- (b) The guarantees were given to banks, in proportion to the Group's beneficial shareholdings in Bushell Limited and Kippford Enterprises Limited, to secure the loan facilities granted to finance the property development projects situated in Hong Kong.
- (c) Advances were provided to the affiliated companies to finance their investments in the property development projects situated in Thailand.
- (d) Giant Riches Limited is the developer of The Panorama at Tsuen Wan, Hong Kong. The advances represented the outstanding fees on services provided by the Group.
- (e) Giant Riches Mortgage Limited is the company providing second mortgage loans to the purchasers of the residential units of The Panorama. Advances were provided to the company to finance its loan business.
- (f) The advance was provided to Hillfield Trading Limited for its on-lending to Bushell Limited, its wholly-owned subsidiary, to finance the property development of the Kimberley 26 project (formerly known as the Furama Court project) at Tsim Sha Tsui, Kowloon, Hong Kong.
- (g) The advances were provided to these companies to finance property development projects situated in Hong Kong.
- (h) The advance was provided to Naples Investments Limited to finance its investments in a hotel and related operations in the Philippines.
- (i) The advance was provided to Orwell Investments Pte Limited for on-lending to its subsidiary to finance the latter's golf club and related operations in the Mainland of China.
- (j) A guarantee was given by the Company to a bank to secure 50% of a banking facility of up to HK\$500 million granted by a bank to Majestic Hotel Enterprises Limited and Majestic Centre Limited (being the owners of Majestic Hotel and Majestic Centre both situated at Kowloon, Hong Kong, respectively) as joint borrowers and is in proportion to the Group's beneficial shareholdings in the borrowers.

# Report of the Directors

## DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES

### ("CHAPTER 13") (continued)

#### (B) Financial assistance and guarantees to affiliated companies (Paragraph 13.22 of Chapter 13)

In compliance with paragraph 13.22 of Chapter 13, the proforma combined balance sheet of the affiliated companies at 31st July, 2004 is disclosed as follows:

	HK\$'000
Fixed assets	943,365
Investment properties	252,000
Film rights	192,142
Properties under development	1,098,632
Interests in associates	141,030
Amount due from a related company	1,500,040
Interests in jointly controlled entities	1,706
Long term investments	1,885
Net current liabilities	<u>(308,813)</u>
 Total assets less current liabilities	 <u>3,821,987</u>
 Long term borrowings	 (817,782)
Amount due to a related company	(13,023)
Rental deposits received	(3,898)
Land premium payable	(495)
Deferred tax	(15,288)
Deferred income	(39,191)
Amount due to shareholders	<u>(1,767,979)</u>
	 <u>(2,657,656)</u>
	 <u>1,164,331</u>
 CAPITAL AND RESERVES	
Issued capital	343,874
Share premium account	2,888,269
Contributed surplus	891,289
Fixed asset revaluation reserve	691,118
Exchange fluctuation reserve	17,592
Accumulated losses	<u>(3,668,007)</u>
	 <u>1,164,135</u>
 Minority interests	 <u>196</u>
	 <u>1,164,331</u>

# Report of the Directors

## DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13") (continued)

### (C) Advances to entities (Paragraph 13.13 of Chapter 13)

In compliance with paragraph 13.13 of Chapter 13, details of the advances to the following entities by LSD as at 31st July, 2004 which individually has exceeded 8% of the Total Market Capitalisation are set out below:

Name of Entities	Percentage of capital held	Guarantees given for banking facilities granted		Total HK\$'000	Notes
		Financial assistance HK\$'000 (Note a)	HK\$'000 (Note b)		
Bushell Limited	50	—	215,000	215,000	
Hillfield Trading Limited	50	461,470	—	461,470	(c)
Kippford Enterprises Limited	50	52,826	52,000	104,826	(d)
Majestic Hotel Enterprises Limited and Majestic Centre Limited	50	—	250,000	250,000	(g)
Naples Investments Limited	50	107,830	—	107,830	(e)
Orwell Investments Pte Ltd	50	47,336	—	47,336	(f)
Union Charm Development Limited	10	145,361	—	145,361	(d)
Bayshore Development Group Limited	10	345,981	—	345,981	(d)

#### Notes:

- (a) All balances due are unsecured, non-interest bearing and have no fixed term of repayment.
- (b) The guarantees were given to banks to secure the loan facilities granted to finance the property development projects situated in Hong Kong.
- (c) The advance was provided to Hillfield Trading Limited for its on-lending to Bushell Limited, its wholly-owned subsidiary, to finance the property development of the Kimberley 26 project (formerly known as Furama Court project) at Tsim Sha Tsui, Kowloon, Hong Kong.
- (d) The advances were provided to these companies to finance property development projects situated in Hong Kong.
- (e) The advance was provided to Naples Investments Limited to finance its investments in a hotel and related operations in the Philippines.
- (f) The advance was provided to Orwell Investments Pte Ltd for on-lending to its subsidiary to finance the latter's golf club and related operations in the Mainland of China.
- (g) A guarantee was given by the Company to a bank to secure 50% of a banking facility of up to HK\$500 million granted to Majestic Hotel Enterprises Limited and Majestic Centre Limited (being the owners of Majestic Hotel and Majestic Centre both situated at Kowloon, Hong Kong, respectively) as joint borrowers and is in proportion to the Group's beneficial shareholdings in the borrowers.

# Report of the Directors

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report. All non-executive directors of the Company were not appointed for a specific term as they 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.

## AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee currently comprises the three independent non-executive directors of the Company.

## AUDITORS

Ernst & Young retire at the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the said meeting.

On behalf of the Board

**Lam Kin Ngok, Peter**  
*Chairman and President*

Hong Kong  
12th November, 2004