



LAI SUN DEVELOPMENT

LAI SUN DEVELOPMENT COMPANY LIMITED

Annual Report 2002-2003

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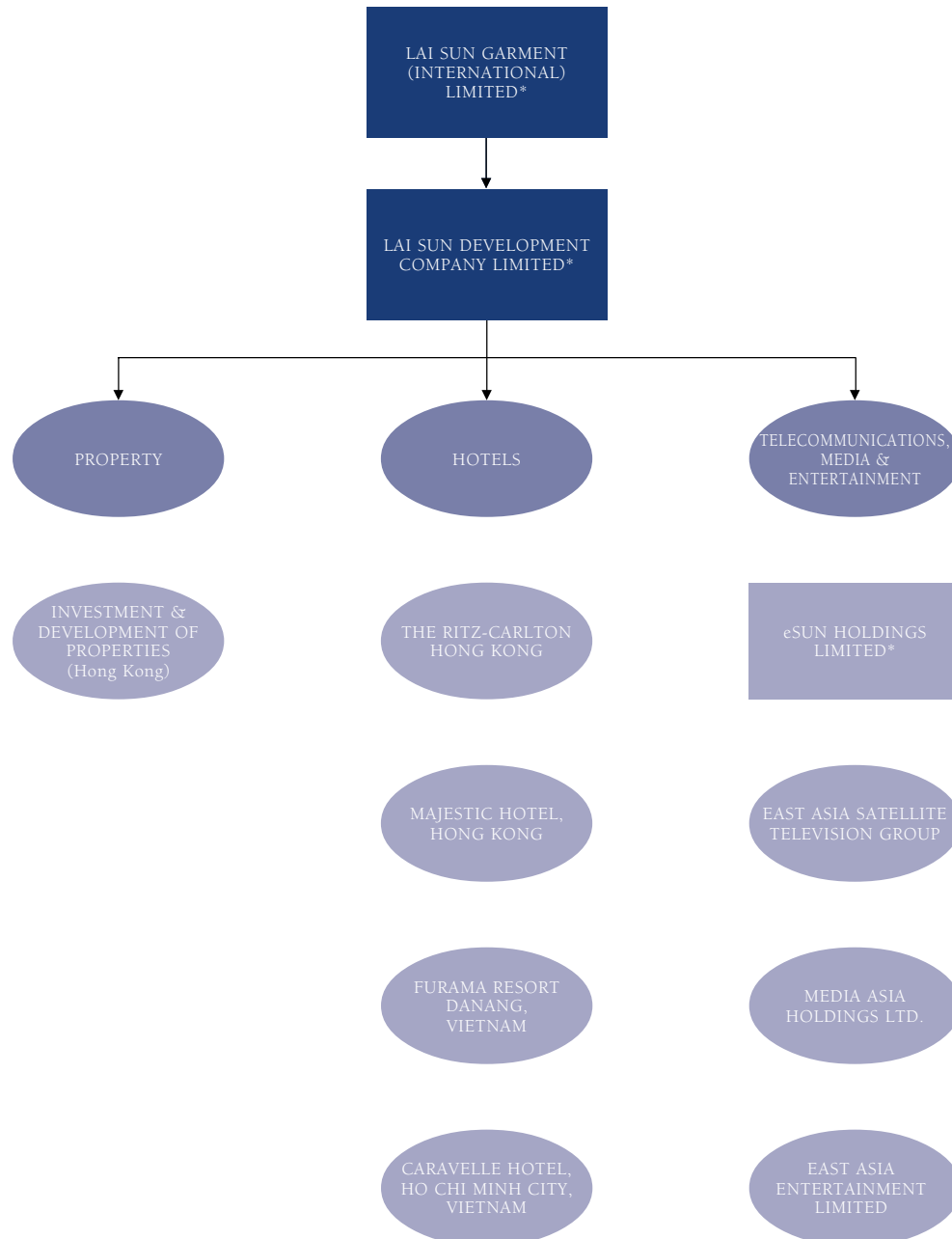
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*Stock code on Hong Kong Stock Exchange: 488*

# Corporate Profile

Lai Sun Development Company Limited is a member of the Lai Sun Group which obtained its first listing on the Hong Kong stock exchange in late 1972. The Company is well diversified and its principal activities include: property development, property investment, hotels, telecommunications, and media and entertainment. The Company was listed on The Stock Exchange of Hong Kong Limited in March 1988 following a reorganisation of the Group.



\* Listed on Main Board of the Stock Exchange

## Corporate Information

### Place of Incorporation

Hong Kong

### Directors

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

### Secretary and Registered Office

Yeung Kam Hoi

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon

Hong Kong

### Share Registrars

Tengis Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### Auditors

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

### Solicitors

Richards Butler

20th Floor, Alexandra House

16-20 Chater Road

Central

Hong Kong

Vincent T.K. Cheung, Yap & Co.

15th Floor, Alexandra House

16-20 Chater Road

Central

Hong Kong

Lo & Lo

35th Floor, Gloucester Tower

The Landmark

11 Pedder Street

Central

Hong Kong

### Bankers

Citibank, N.A.

CITIC Ka Wah Bank Limited

DBS Bank (Hong Kong) Limited

Hang Seng Bank Limited

Liu Chong Hing Bank Limited

The Bank of East Asia Limited

The Hongkong and Shanghai Banking  
Corporation Limited

Wing Lung Bank Limited

## Chairman's Statement



*Chairman and President LAM Kin Ngok, Peter*

### RESULTS

The Group recorded a consolidated net attributable loss of HK\$461 million for the year ended 31st July, 2003 (2002: HK\$1,942 million). Basic loss per share was HK\$0.12 (2002: HK\$0.52).

The operating environment for the year under review remained difficult, with the outbreak of Severe Acute Respiratory Syndrome ("SARS") bringing business activities to a virtual standstill in the early part of this year. Meanwhile, continued deflationary pressure resulting from wage decline and a further contraction in domestic demand have put additional pressure on office and retail rentals to which the Group is heavily exposed. Consequently, the Group has suffered from lower rental income, as well as losses incurred from provisions taken in respect of its development landbank during the period under review. Furthermore, the Group also realized a loss on the disposal of its 32.75% interest in Asia Television Limited ("ATV"), a transaction which was completed in July 2003.

### DIVIDENDS

The Directors do not recommend payment of a dividend for the current financial year.

# Chairman's Statement

## BUSINESS REVIEW

Volatility, in terms of both activity and sentiment, was the main feature of Hong Kong for the period under review. Local business confidence sunk to an all time low in the early part of the year, especially when the SARS outbreak exacerbated the already fragile sentiment, causing irreparable damage to almost every facet of the economy, obviously with the tourism related industries being hardest hit — an all-time high unemployment rate of 8.7% in the second quarter, an average hotel occupancy of 20% and an almost 70% year-on-year decline in airport passenger volume in the month of April were just some of the anecdotal evidences illustrating the severity of the downturn. Naturally, local deflationary pressure further intensified — indeed Hong Kong has just recorded its 59th consecutive month of deflation, the longest ever. It is, however, gratifying to see a reasonable economic rebound since August 2003, fuelled by China's strong economic support to Hong Kong through the signing of the Closer Economic Partnership Arrangement ("CEPA") and the relaxation of mainland tourists' restrictions into the territory.

The overall property market echoed with this economic setting as it exhibited weakened signs across all sectors on shrinking volumes in the first half of 2003, only to see signs of stability in tandem with a recovery in business activities lately. As compared to the same period last year, residential property prices in general are estimated to have fallen by 5% for the luxury market, and 10% for the mass market. Meanwhile, commercial and office rentals remained the underperformers, exhibiting a 15%-20% decline on the same basis of comparison.

Thanks to the continued low interest rates and further disposal of non-strategic assets, the Group managed to reduce its overall interest expenses by almost 9%. Notwithstanding, the extent of debt reduction vis-à-vis the Group's asset base remained unsatisfactory and further disposals and/or debt restructuring would be necessary in order to re-establish a stable financial platform. As of July 2003, total bank and other debt of the Group stayed at HK\$3,984 million. Together with bond debt of HK\$2,141 million (including accrued premium) and an intercompany debt owed to associate eSun Holdings Limited ("eSun") in the amount of HK\$1,500 million, total borrowings of the Group remained at a high of HK\$7,625 million (2002: 7,797 million).

# Chairman's Statement

In addition to being beleaguered by the still high financial expenses, the HK\$461 million loss recorded in the period under review was also attributable to a HK\$52 million provision taken in respect of its development landbank, an overall loss of almost HK\$100 million resulting from the sale of the Group's 32.75% interest in ATV, and a HK\$104 million net loss on deemed disposal of eSun in consequence of the latter's allotment of consideration shares to acquire an additional interest in Media Asia Holdings Ltd. ("MAH"), which allotment diluted the Company's interest from 49.99% to 42.54%.

## Property Investment

The Group's investment property portfolio generated gross rental income of HK\$390 million for the year, representing a drop of 6% from the previous year. The drop was largely due to the absence of contributions from Crocodile Houses 1 and 2 which were sold in July last year, as well as downward rental revision for the key investment properties; this was however partly compensated by maiden rental contribution from the Majestic Centre which was acquired by the Group in November 2002. Given the superior locations of the Group's investment properties, overall vacancy remained at a low 5% which is very respectable given the uninspiring form of the overall leasing market.

## Property Sales

While it was a relatively lacklustre year in respect of property development, the Group on the other hand managed to conduct a few strategic disposals in the year of 2003. In March 2003, the Company's wholly-owned subsidiary, Peakflow Profits Limited, disposed a further 20% of its interest in Bayshore Development Group Limited which owns the site at 1 Connaught Road, Central, Hong Kong (or the former Furama Hotel site). The transaction effectively reduced the Group's indebtedness by HK\$416.7 million previously owed to Grand Design Development Limited, the purchaser which was jointly controlled by American International Assurance Company (Bermuda) Limited and Somerset Mall Pte. Limited. Secondly, the Group sold the Lai Sun Yuen Long Centre for a total consideration of HK\$89 million in July 2003 and the transaction was completed in August 2003. Finally, the Group, through a private tender, successfully disposed Causeway Bay Plaza 1 to The Wing On Properties and Securities Company Limited for a total consideration of HK\$1,200 million; the disposal was unanimously approved by shareholders on 29th September, 2003 and was completed on 23rd October, 2003. All the transactions were demonstrative of the Group's genuine

## Chairman's Statement

commitment to reduce its level of indebtedness, while hoping to reach a consensual restructuring with its creditors in the foreseeable future. More details regarding the progress of restructuring will be divulged in a later section.

### Hotels

In sympathy to the SARS outbreak, the hotel sector in Hong Kong was hard hit during the first half of 2003. For the seven months ended July 2003, the Group's 65%-owned The Ritz-Carlton Hong Kong achieved an average occupancy of 45.6% and an average room rate of HK\$1,520, as compared to 72.0% and HK\$1,570 recorded in the previous corresponding period.

Meanwhile, performance of the Group's hotel operations in Vietnam was also negatively impacted by the huge decline in tourist volume during the same period. Notwithstanding, the two hotels, namely the Caravelle Hotel situated at Ho Chi Minh City (26.01% interest) and the Furama Resort Danang (62.625% interest) still managed to provide positive contributions to the Group.

### eSun

eSun reported a net attributable loss of HK\$46.721 million for the six months ended June 2003. The loss was mainly attributable to a HK\$25.23 million operating loss recorded by East Asia Satellite Television Limited ("EAST"). However, it is gratifying to see the media and entertainment businesses of eSun displaying a turnaround during the period under review and recorded a profit of HK\$5.855 million which compared favourably with the HK\$12.6 million loss sustained in the same period last year. Finally, a suspension in interest payment from Furama Hotel Enterprises Limited ("FHEL"), a wholly-owned subsidiary of the Company, on approximately HK\$1,500 million debt due from FHEL with effect from 1st January, 2003, had also adversely impacted the results of eSun.

During the period under review, EAST, despite continued losses, has made reasonable headway in terms of cost control and program distribution; for the latter, programmes produced by EAST are now being offered to subscribers of NOW Broadband TV of PCCW Limited. Additionally, EAST has also successfully marketed its services of providing broadcasting facilities and know-how to outside clients.

# Chairman's Statement

As for media and entertainment, MAH in which eSun maintains a 49.77% interest, recorded an operating loss in the interim period. Meanwhile, on the back of strong distribution income growth, East Asia Entertainment Limited ("EAE"), a wholly-owned subsidiary, operated profitably notwithstanding depressed consumer spending due to the SARS outbreak.

On 29th January, 2003, the Group put forward a proposal for the privatization of eSun by way of a Scheme of Arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK\$0.28 per share ("the Scheme"). At a meeting of the Scheme shareholders of eSun held on 30th April, 2003, the resolution for approving the Scheme was not approved in accordance with the relevant requirements under the Companies Act of Bermuda and the Hong Kong Code on Takeovers and Mergers. The Scheme thus could not be put into effect and hence had lapsed.

## ATV Disposal

On 8th November, 2002, the Group entered into an agreement with Dragon Goodwill International Limited ("the purchaser") to dispose of its entire 32.75% interest in ATV and a 50% interest in HKATV.com Limited for a cash consideration of HK\$360 million. The purchaser is an independent third party and is controlled by one of the existing shareholders of ATV, Mr. Chan Wing Kee. On 14th May, 2003, the Group agreed with the purchaser to amend the terms of the sale, notably the consideration in respect of the purchase was reduced to HK\$230 million. The revised transaction was respectively approved by bondholders and shareholders of the Group and completion of the transaction took place on 25th July, 2003.

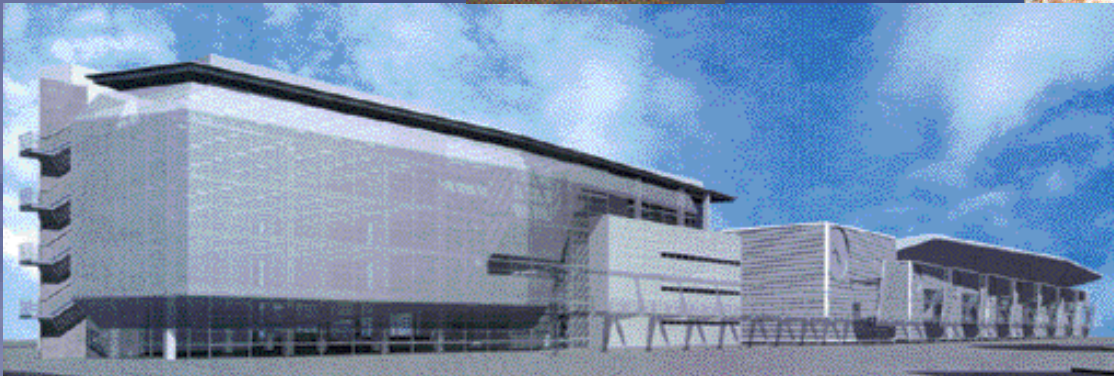
## PROSPECTS

Despite of the improved sentiment, the economic outlook for Hong Kong remains highly uncertain. With the absence of effectively wage containment measures and a substantial reduction in land sales revenue, the Government's persistent fiscal deficit problem will remain a feature in the short-to-medium term. Meanwhile, the still high unemployment rate will stay as an issue of no easy remedy. The bright spot in an otherwise dull economic environment will very much hinge upon China, with which the Hong Kong's unique privilege of securing closer economic ties will no doubt spur investment demand and sentiment.

Furama Court



Majestic Hotel



East Asia Satellite TV City, Macau  
(artist impression)



Cheung Sha Wan Plaza



Causeway Bay Plaza 2



The Ritz-Carlton  
Hong Kong

## Chairman's Statement

The residential property market has been showing signs of recovery lately, albeit mild. Given the fast depletion of the Group's development landbank, however, the property sales schedule will remain thin looking further out. The tentative projects earmarked for sale (or pre-sale) in Hong Kong for the year 2003/2004 are as follows:

| Location                                                                                                          | Type                            | Group Interest | Attributable GFA (sq.ft.)                |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------|------------------------------------------|
| Rolling Hills (Phase 2)<br>DD105, Ngau Tam Mei<br>Yuen Long                                                       | Residential                     | 50%            | 38,010                                   |
| Furama Court<br>24-26 Kimberly Road &<br>55-61 Carnarvon Road &<br>38-40 Kimberley Street<br>Tsimshatsui, Kowloon | Service Apartment<br>Commercial | 50%            | 41,570<br><u>15,238</u><br><u>56,808</u> |

As supply continues to outpace demand, the prevailing cautious sentiment over the office and commercial market is likely to linger on, amongst which the Grade A office leasing market is expected to remain as the prime casualty given destitute multinational demand and still abundant supply. Indeed, due to the competitive environment, the average rental in Central registered an almost 15% decline in the third quarter of 2003, while other sub-markets in the Hong Kong Island also fell by around 5%-6%. Based on this projection and coupled with the disposals of Crocodile Houses 1 and 2, Lai Sun Yuen Long Centre and Causeway Bay Plaza 1, the Group's rental income would dwindle substantially in the coming year, and it would not be until late 2005 when the expected completion of the AIG Tower (i.e. in which the Group retains a 10% interest) would provide fresh contribution to the Group.

Thanks to the stronger than expected tourism arrival levels starting from August onward, the short term prospects of the overall hotel industry appear to be more promising vis-à-vis last year, with both occupancy and room rates likely to show reasonable improvement. The Ritz-Carlton Hong Kong should be a major beneficiary of this favourable trend, while the Majestic Hotel should also turn in better performance although competition in the three-star segment will remain very intense. We are equally

## Chairman's Statement

optimistic of the performance of our twin Vietnamese hotels whose respective excellent and unique location will serve as strong competitive advantage in the marketplace.

The Group is guardedly optimistic of the prospects of eSun. While still awaiting relevant PRC authorities' approval for a satellite television downlink license, EAST stands to benefit, as a content provider, from the growing number of new players in the Pay TV market. Meanwhile, MAH will be a major beneficiary of CEPA given China's likelihood of relaxing its quota system for locally produced films. With the recent production launches being met with a warm reception, we are confident that MAH will provide positive contributions to eSun in the second half of 2003. Finally, in tandem with the improving consumer sentiment, eSun's entertainment vehicle EAE is expected to show a significant increase in revenue as compared to the first half of 2003.

### GROUP RESTRUCTURING

With the continued devaluation of the Group's investment properties and the loss sustained for the year under review, the Group, as at the balance sheet date, recorded a consolidated net deficiency in assets of HK\$374 million (2002: net assets of HK\$766 million). Riding on a still high debt level of HK\$7,625 million, it is obvious that a substantial debt restructuring program would be essential to re-position the Group with a cleaner bill of financial health. As a matter of record, the Group has defaulted in the settlement of both the Convertible Bonds and Exchangeable Bonds and the debt due to eSun; these defaults have in turn triggered cross defaults under all of the Group's other borrowing facilities. Consequently, all bank and other borrowings have been classified under current liabilities.

The Group has been negotiating with all creditors since late 2002 with a view to achieve a consensual debt restructuring agreement which if successful, will see a substantial portion of its indebtedness being repaid by a combination of cash, equity and certain property assets. Since then, the overall progress has unfortunately been marred by the SARS outbreak as well as the delay in completing the sale of ATV. Subsequent to the financial year-end, however, negotiations have resumed its normal course and the differences amongst various parties in respect of the form and value of settlement have narrowed. We envisage to hold a formal bondholders' meeting before the end of 2003, and we are hopeful that, barring unforeseen circumstances, an overall agreement would be reached amongst all parties before the first

## Chairman's Statement

quarter of 2004. We will keep all creditors and shareholders promptly informed of future developments, and we sincerely look forward to the conclusion of this restructuring exercise which will result in a substantial improvement in the shareholders' value of the Group.

### LIQUIDITY AND FINANCIAL RESOURCES

As at the balance sheet date, the Group had outstanding borrowings of approximately HK\$7,625 million (2002: HK\$7,797 million) comprising (i) secured bank loans and other borrowings of approximately HK\$3,957 million, (ii) an accrued loan repayment premium of approximately HK\$27 million under a loan facility, (iii) an outstanding amount of approximately HK\$881 million payable under the Exchangeable Bonds (principal of HK\$622 million and accrued bond redemption premium of HK\$259 million) and (iv) an outstanding amount of approximately HK\$1,260 million payable under the Convertible Bonds (principal of HK\$907 million and accrued bond redemption premium of HK\$353 million) and (v) an amount due to the eSun Group of approximately HK\$1,500 million. Consolidated net deficiency in assets of the Group as at the same date was HK\$374 million (2002: net assets of HK\$766 million). The deterioration in the Group's net asset position was mainly resulted from the devaluation of the Group's investment properties and the operating loss incurred during the year. The Group has defaulted in the settlement of both the Convertible Bonds and the Exchangeable Bonds and the debt due to eSun. Such defaults, in turn, have triggered cross defaults under all of the Group's other borrowing facilities. As such, all bank and other borrowings have been classified under current liabilities in the consolidated balance sheet.

As at the balance sheet date, certain investment properties with carrying value of approximately HK\$4,497 million, certain fixed assets with carrying value of approximately HK\$1,468 million and certain cash deposits with banks of approximately HK\$120 million were pledged to banks to secure banking facilities granted to the Group. In addition, 285,512,791 ordinary shares of eSun, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower project, and certain shares in other subsidiaries, associates and investee companies held by the Group were also pledged to banks and other lenders to secure loan facilities granted to the Group. In addition, pursuant to the terms and conditions of the Exchangeable Bonds and the Convertible Bonds, the

## Chairman's Statement

Exchangeable Bondholders share on a pari passu and pro rata basis with the Convertible Bondholders the security charge over a second charge over 285,512,791 shares of eSun beneficially owned by the Company. The Exchangeable Bondholders also share on a pari passu and pro rata basis with the Convertible Bondholders and eSun the security of a limited recourse second charge over 6,500 shares of Diamond String Limited (which owns The Ritz-Carlton Hong Kong) beneficially owned by the Company. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

The Group is still in its ongoing discussions with all of its financial creditors on a consensual debt restructuring plan. The Group is currently under a period of informal standstill. Up to now, neither the Exchangeable Bondholders, the Convertible Bondholders, eSun nor its other financial creditors has taken any action to enforce their respective securities and other rights. The directors of the Company are optimistic that the Group will be able to secure the agreement of all its financial creditors to a consensual debt restructuring plan by the end of the first quarter of 2004.

The Group's principal sources of funding remain mainly funds generated from its business operations including property rental income, proceeds from sale of investment and development properties and revenue from its hotel and restaurant operations. The Group will continue to implement its orderly disposal of assets, including properties and other investments to provide working capital of the Group's operation. The Directors believe that the currency peg to US dollar would be maintained in the foreseeable future. The majority of the Group's borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. On the interest rate front, the majority of the bank borrowings are maintained as floating rate debts. The current low interest rate environment has benefited the Group in relieving to some extent the interest burden of the Group. The Directors are of the view that increase in interest rate in the ensuing year will be moderate. However, the market situation will be closely monitored such that hedging instruments may be employed as and when necessary.

### EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,900 (as at 31st July, 2002: 1,700) employees as at 31st July, 2003. The increase in headcount is mainly due to the acquisition of the Majestic Hotel and Majestic Centre at 348 Nathan Road, Kowloon, Hong

# Chairman's Statement

Kong during the year. 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, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

## CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 37 to the financial statements.

## CONCLUSION

Amidst difficult times, I would particularly like to take this opportunity to thank the shareholders of the Company for their continued loyal support to the Group. At the same time, my appreciation also goes to fellow Board colleagues and all staff members of the Group for their diligence and contribution.

Lam Kin Ngok, Peter  
*Chairman and President*

Hong Kong  
7th November, 2003

# 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, 2003.

## PRINCIPAL ACTIVITIES

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

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

Details of the principal activities of the subsidiaries are set out in note 18 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, 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 37 to 101.

The directors do not recommend the payment of a final ordinary dividend for the year ended 31st July, 2003.

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\*

\* *Independent non-executive directors*

# Report of the Directors

## DIRECTORS (continued)

In accordance with Article 102 of the Company's Articles of Association, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Mr. David Tang 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, 18 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.

Mr. Lam Kin Ngok, Peter and Madam U Po Chu held interests and/or directorships in companies engaged in the business of investment in and 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 SHAREHOLDERS' 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 88, is the founder of the Lai Sun Group and has been a director of the Company since June 1959. He is also the chairman and managing director of Lai Sun Garment (International) Limited (“LSG”), the chairman of Crocodile Garments Limited and Lai Fung Holdings Limited, and an executive director of eSun 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 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 People’s Republic of China. Mr. Lim was also 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 46, has been a 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 47, joined the Company as a 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 40, joined the Lai Sun Group in November 1997 and was appointed a director of the Company on 1st January, 1998. He has over 15 years’ experience in 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 66, 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 and 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 78, 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 72, 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. He has been working for the Lai Sun Group’s garment business since 1955.

**Mr. Shiu Kai Wah**, aged 71, 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 49, 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 54, is an independent non-executive director of the Company. He is also an independent non-executive director of Lai Fung Holdings Limited. 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, both listed on the Main Board of the Hong Kong Stock Exchange.

# Report of the Directors

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

### Senior Management

Mr. Tam Kin Man, Kraven, aged 55, 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 27 years' experience in property development, investment and management. He also has over 14 years' experience in the hospitality business including hotels, restaurants and clubs in Asia and North America.

Mr. Alan Tse, aged 40, 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 with over 18 years' financial experience.

Mr. Yeung Kam Hoi, aged 54, 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, 2003, 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 (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; 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    | Personal Interests | Long positions in the shares |                           |                  | Total         | Percentage |
|---------------------|--------------------|------------------------------|---------------------------|------------------|---------------|------------|
|                     |                    | Family Interests             | Corporate Interests       | Capacity         |               |            |
| Lim Por Yen         | 197,859,550        | 633,400<br>(Note 1)          | 1,582,869,192<br>(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<br>(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)

### (1) The Company (continued)

#### Long positions in underlying shares of equity derivatives

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives.

#### Short positions in underlying shares of equity derivatives

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives.

### (2) Associated Corporation

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

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

#### Long positions in underlying shares of equity derivatives of eSun

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives of eSun.

#### Short positions in underlying shares of equity derivatives of eSun

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives of eSun.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

Save as disclosed above, as at 31st July, 2003, 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 and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and 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; 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.

## 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2003, 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 the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name                                            | Capacity         | Long positions in the shares   |                     |                    |
|-------------------------------------------------|------------------|--------------------------------|---------------------|--------------------|
|                                                 |                  | Nature<br>(Note 1)             | Number of<br>Shares | Percentage         |
| 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%<br>(Note 2) |
| U Po Chu                                        | Beneficial owner | Personal and Family            | 1,781,362,142       | 47.55%<br>(Note 3) |
| Lai Yuen Fong                                   | Beneficial owner | Family                         | 1,781,362,142       | 47.55%<br>(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%<br>(Note 5) |

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued) Long positions in the shares

| Name                    | Capacity         | Nature<br>(Note 1) | Number of<br>Shares | Percentage                      |
|-------------------------|------------------|--------------------|---------------------|---------------------------------|
| Chen Din Hwa            | Beneficial owner | Corporate          | 781,346,935         | 20.86%<br>(Notes 5<br>and 6)    |
| Chen Yang Foo Oi        | Beneficial owner | Family             | 781,346,935         | 20.86%<br>(Note 7)              |
| Asia Television Limited | Beneficial owner | Corporate          | 200,000,000         | 5.34%<br>(Note 8)               |
| Today's Asia Limited    | Beneficial owner | Corporate          | 200,000,000         | 5.34%<br>(Notes 8 and 9)        |
| Liu Changle             | Beneficial owner | Corporate          | 200,000,000         | 5.34%<br>(Notes 8, 9<br>and 10) |

### 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.
8. Persons falling into the category of "Other Persons" in Practice Note 5 to the Listing Rules.
9. Today's Asia Limited through two wholly-owned subsidiaries indirectly controlled 46% of Asia Television Limited. Today's Asia Limited was taken to be interested in 200,000,000 shares beneficially owned by Asia Television Limited due to its corporate interests therein.
10. Mr. Liu Changle controlled 93.29% of Today's Asia Limited which indirectly controlled 46% of Asia Television Limited, Mr. Liu Changle was taken to be interested in 200,000,000 shares by virtue of his corporate interests in Asia Television Limited.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Long positions in underlying shares of equity derivatives

| Name             | Capacity         | Nature<br>(Note 1) | Number of<br>Shares<br>(as enlarged) | Percentage          |
|------------------|------------------|--------------------|--------------------------------------|---------------------|
| Chen Din Hwa     | Beneficial owner | Corporate          | 861,784,435                          | 22.52%<br>(Note 11) |
| Chen Yang Foo Oi | Beneficial owner | Family             | 861,784,435                          | 22.52%<br>(Note 12) |

### Notes:

11. Please refer to note 5 above.

Mr. Chen Din Hwa was taken to be interested in 781,346,935 shares by virtue of his corporate interests in Nice Cheer. The remaining balance represents 80,437,500 shares to be issued by the Company to Absolute Gain Trading Ltd. upon its exercise of rights attaching to the convertible bonds issued by Lai Sun International Finance (1997) Limited and guaranteed by the Company. Mr. Chen Din Hwa was taken to be interested in such shares by virtue of his corporate interests in Absolute Gain Trading Ltd. Mr. Chen Din Hwa's aggregate interest in 861,784,435 shares represents 22.52% of the issued share capital of the Company as enlarged by the potential issue by the Company of 80,437,500 shares in the event of Absolute Gain Trading Ltd. exercising its rights attaching to the said convertible bonds.

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12. Madam Chen Yang Foo Oi was deemed to be interested in 861,784,435 shares by virtue of the interest in such shares of her spouse, Mr. Chen Din Hwa.

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 or short position in the shares and underlying shares of the Company as at 31st July, 2003.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year ended 31st July, 2003, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

# Report of the Directors

## DETAILS OF PROPERTIES

The principal investment properties of the Group are as follows:

| Location                                                                                                                                                                                                                                                                      | Group Interest | Tenure                                                                                                                                                                                                                              | Use                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| 1. Cheung Sha Wan Plaza,<br>833 Cheung Sha Wan Road,<br>Cheung Sha Wan, Kowloon,<br>Hong Kong<br>(New Kowloon Inland Lot No. 5955)                                                                                                                                            | 100%           | The property is held for a term expiring on 30th June, 2047                                                                                                                                                                         | Office/<br>commercial/<br>carpark |
| 2. Causeway Bay Plaza 1,<br>489 Hennessy Road,<br>Causeway Bay, Hong Kong<br>(The Remaining Portion of Subsection 10 of Section A of Inland Lot No. 2836 and Inland Lot Nos. 8659 and 8683)<br>(The disposal of the property has been completed after the balance sheet date) | 100%           | Inland Lot No. 2836 is held for a term of 99 years commencing from 30th September, 1929 and renewable for a further term of 99 years. Inland Lot Nos. 8659 and 8683 are held for a term of 60 years commencing from 18th June, 1987 | Office/<br>commercial             |
| 3. Causeway Bay Plaza 2,<br>463-483 Lockhart Road,<br>Causeway Bay, Hong Kong<br>(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 from 15th April, 1929 and renewable for a further term of 99 years                                                                                                           | Office/<br>commercial/<br>carpark |
| 4. Lai Sun Commercial Centre,<br>680 Cheung Sha Wan Road,<br>Cheung Sha Wan, Kowloon,<br>Hong Kong<br>(New Kowloon Inland Lot No. 5984)                                                                                                                                       | 100%           | The property is held for a term which expired on 27th June, 1997 and had been extended upon expiry until 30th June, 2047                                                                                                            | Office/<br>commercial/<br>carpark |
| 5. Lai Sun Yuen Long Centre,<br>27 Wang Yip Street East,<br>Yuen Long, New Territories,<br>Hong Kong<br>(Yuen Long Town Lot No. 362)<br>(The disposal of the property has been completed after the balance sheet date)                                                        | 100%           | The property is held for a term which expired on 27th June, 1997 and had been extended upon expiry until 30th June, 2047                                                                                                            | Industrial                        |

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

| Location                                                                                                                                                                                                                                                                                           | Group Interest | Tenure                                                                                                                                                        | Use        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 6. Majestic Centre, the commercial portion of 348 Nathan Road, Yau Ma Tei, Kowloon, Hong Kong (7,973/29,810th equal and undivided shares of and in Kowloon Inland Lot No. 6733)                                                                                                                    | 100%           | Kowloon Inland Lot No. 6733 is held for a term of 150 years commencing from 25th December, 1888                                                               | Commercial |
| 7. The roof and the exterior advertising spaces, China Hong Kong Centre, 122-126 Canton Road, Tsimshatsui, Kowloon, Hong Kong (40/980th equal and undivided shares of and in Kowloon Inland Lot Nos. 3554, 3555 and 3556)                                                                          | 100%           | Kowloon Inland Lot Nos. 3554, 3555 and 3556 are held for a term of 75 years commencing from 4 July 1899, and had been renewed for a term of another 75 years. | Commercial |
| 8. Flats A and B on 10th floor and car parking spaces nos. 1, 2, 13 and 14 on Ground Floor, Metropolitan Factory and Warehouse Building, 30-32 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong (28/380th equal and undivided shares of and in Section B of Tsuen Wan Inland Lot No. 34) | 100%           | Tsuen Wan Inland Lot No. 34 is held for a term which expired on 27th June 1997 and had been extended upon expiry until 30th June, 2047                        | Industrial |

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. Furama Court,<br>24-26 Kimberley Road,<br>55-61 Carnarvon Road<br>and 38-40 Kimberley<br>Street, Tsimshatsui,<br>Kowloon, Hong Kong | 50%            | Superstructure<br>work in<br>progress | End 2004                 | Commercial/<br>service<br>apartments | The total site area<br>is 960 sq.m. The<br>total gross floor<br>area will be<br>approximately<br>10,600 sq.m.                    |
| 2. AIG Tower,<br>1 Connaught Road<br>Central, Hong Kong                                                                                | 10%            | Foundation<br>work completed          | 2005                     | Commercial<br>/office                | The total site area<br>is 2,269 sq.m.<br>The total gross<br>floor area will be<br>approximately<br>41,000 sq.m.                  |
| 3. Rolling Hills (Phase II),<br>2094 in DD105,<br>Ngau Tam Mei,<br>Yuen Long,<br>New Territories,<br>Hong Kong                         | 50%            | Superstructure<br>work in<br>progress | End 2004                 | Residential                          | The total site area<br>is approximately<br>19,600 sq.m.<br>The total gross<br>floor area will be<br>approximately<br>7,110 sq.m. |
| 4. Various lots in DD244,<br>Sai Kung,<br>New Territories,<br>Hong Kong                                                                | 100%           | Land bank                             | —                        | —                                    | The total site<br>area is 592 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 15 and 16, respectively, to the financial statements. Further details of the Group's investment properties are set out on pages 25 to 26.

## PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Company and the Group during the year are set out in note 17 to the financial statements.

# Report of the Directors

## SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 33 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 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31st July, 2003, 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\$133,000.

## SUMMARY OF FINANCIAL INFORMATION

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

## RESULTS

|                                                                | Year ended 31st July, |                    |                    |                    |                    |
|----------------------------------------------------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                | 2003<br>HK\$'000      | 2002<br>HK\$'000   | 2001<br>HK\$'000   | 2000<br>HK\$'000   | 1999<br>HK\$'000   |
| TURNOVER                                                       | <u>906,590</u>        | <u>934,720</u>     | <u>1,899,862</u>   | <u>4,659,663</u>   | <u>1,752,093</u>   |
| LOSS BEFORE TAX                                                | (404,488)             | (1,881,190)        | (1,155,522)        | (3,586,818)        | (6,998,179)        |
| Tax                                                            | <u>(28,516)</u>       | <u>(35,927)</u>    | <u>(30,476)</u>    | <u>16,008</u>      | <u>(45,614)</u>    |
| LOSS BEFORE MINORITY INTERESTS                                 | (433,004)             | (1,917,117)        | (1,185,998)        | (3,570,810)        | (7,043,793)        |
| Minority interests                                             | <u>(28,036)</u>       | <u>(24,391)</u>    | <u>(10,184)</u>    | <u>750,209</u>     | <u>211,370</u>     |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | <u>(461,040)</u>      | <u>(1,941,508)</u> | <u>(1,196,182)</u> | <u>(2,820,601)</u> | <u>(6,832,423)</u> |

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued) ASSETS, LIABILITIES AND MINORITY INTERESTS

|                                                      | As at 31st July,   |                    |                    |                    |                     |
|------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
|                                                      | 2003<br>HK\$'000   | 2002<br>HK\$'000   | 2001<br>HK\$'000   | 2000<br>HK\$'000   | 1999<br>HK\$'000    |
| Fixed assets                                         | 1,837,653          | 1,294,943          | 1,312,728          | 1,371,567          | 2,014,989           |
| Investment properties                                | 4,503,410          | 4,987,860          | 6,224,870          | 9,478,130          | 9,954,900           |
| Properties under development                         | 1,400              | 116,592            | 160,754            | 3,571,007          | 7,886,347           |
| Deferred pre-operating expenses                      | —                  | —                  | —                  | —                  | 10,718              |
| Interests in associates                              | 966,080            | 2,082,375          | 2,128,954          | 1,964,843          | 1,126,531           |
| Interests in jointly controlled entities             | —                  | —                  | —                  | 50,127             | 188,572             |
| Long term investments                                | 357,791            | 173,531            | 539,307            | 1,018,910          | 1,018,389           |
| Long term note receivable                            | —                  | —                  | —                  | —                  | 245,000             |
| Long term prepayment                                 | —                  | 194,000            | 194,000            | —                  | —                   |
| Pledged bank balances and time deposits              | —                  | 70,053             | —                  | —                  | —                   |
| Deferred tax assets                                  | —                  | —                  | —                  | 749                | 216                 |
| Pension scheme assets                                | 18,298             | —                  | —                  | —                  | —                   |
| Current assets                                       | 386,620            | 394,684            | 805,129            | 2,044,096          | 2,140,135           |
| <b>TOTAL ASSETS</b>                                  | <b>8,071,252</b>   | <b>9,314,038</b>   | <b>11,365,742</b>  | <b>19,499,429</b>  | <b>24,585,797</b>   |
| Current liabilities                                  | (8,040,621)        | (6,587,485)        | (1,762,276)        | (3,633,586)        | (4,703,058)         |
| Deferred tax                                         | (5,065)            | (380)              | (380)              | —                  | —                   |
| Long term rental deposits received                   | (40,294)           | (62,981)           | (50,707)           | (73,629)           | (102,635)           |
| Interest-bearing bank and other borrowings           | —                  | (1,493,000)        | (3,128,335)        | (2,575,890)        | (3,124,279)         |
| Provision for premium on loan repayment              | —                  | (52,500)           | (17,500)           | —                  | —                   |
| Provision for premium on bonds redemption            | —                  | —                  | (473,145)          | (354,081)          | (249,554)           |
| Long term bonds payable                              | —                  | —                  | (740,053)          | (735,853)          | (891,250)           |
| Convertible bonds                                    | —                  | —                  | (965,287)          | (1,888,324)        | (2,098,581)         |
| Provision for premium on convertible note redemption | —                  | —                  | —                  | (21,667)           | (1,667)             |
| Convertible note                                     | —                  | —                  | —                  | (600,000)          | (600,000)           |
| <b>TOTAL LIABILITIES</b>                             | <b>(8,085,980)</b> | <b>(8,196,346)</b> | <b>(7,137,683)</b> | <b>(9,883,030)</b> | <b>(11,771,024)</b> |
| <b>MINORITY INTERESTS</b>                            | <b>(359,428)</b>   | <b>(351,274)</b>   | <b>(361,744)</b>   | <b>(3,233,971)</b> | <b>(4,105,773)</b>  |
| <b>NET ASSETS/<br/>(DEFICIENCY IN ASSETS)</b>        | <b>(374,156)</b>   | <b>766,418</b>     | <b>3,866,315</b>   | <b>6,382,428</b>   | <b>8,709,000</b>    |

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year and purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases.

## PRACTICE NOTE 19 TO THE LISTING RULES ("PN19")

### Advances to entities (Paragraph 3.2.1 of PN19)

In compliance with PN19, details of the advances to and guarantees given for facilities granted to the following affiliated companies of the Company as at 31st July, 2003 are set out below:

| Name of affiliated company       | Percentage<br>of capital<br>held | Principal<br>amount of<br>advance<br>HK\$'000<br>(Note a) | Guarantees<br>given for<br>banking<br>facilities<br>granted<br>HK\$'000<br>(Note b) | Total<br>HK\$'000 | Notes |
|----------------------------------|----------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------|-------|
| Barnwood Limited                 | 50                               | 897                                                       | —                                                                                   | 897               | (c)   |
| Bushell Limited                  | 50                               | —                                                         | 215,000                                                                             | 215,000           |       |
| Capital Property Company Limited | 24.5                             | 29,274                                                    | —                                                                                   | 29,274            | (c)   |
| Easlin Corporation               | 20                               | 27,181                                                    | —                                                                                   | 27,181            | (c)   |
| Giant Riches Limited             | 50                               | 784                                                       | —                                                                                   | 784               | (d)   |
| Giant Riches Mortgage Limited    | 50                               | 809                                                       | —                                                                                   | 809               | (e)   |
| Hillfield Trading Limited        | 50                               | 418,414                                                   | —                                                                                   | 418,414           | (f)   |
| JDL International Limited        | 50                               | 1,574                                                     | —                                                                                   | 1,574             | (c)   |
| Kippford Enterprises Limited     | 50                               | 50,974                                                    | 52,000                                                                              | 102,974           | (g)   |
| Mandy Investment Company Limited | 40                               | 630                                                       | —                                                                                   | 630               | (g)   |
| Modern Focus Limited             | 50                               | 7,568                                                     | —                                                                                   | 7,568             | (g)   |
| Naples Investments Limited       | 50                               | 107,395                                                   | —                                                                                   | 107,395           | (h)   |
| Omicron International Limited    | 43.5                             | 132,548                                                   | —                                                                                   | 132,548           | (g)   |
| Orwell Investments Pte Ltd       | 50                               | 46,223                                                    | —                                                                                   | 46,223            | (i)   |
| Rich Vision Limited              | 50                               | 12,369                                                    | —                                                                                   | 12,369            | (c)   |
|                                  |                                  | <u>836,640</u>                                            | <u>267,000</u>                                                                      | <u>1,103,640</u>  |       |

# Report of the Directors

## PRACTICE NOTE 19 TO THE LISTING RULES (“PN19”) (continued)

### Advances to entities (Paragraph 3.2.1 of PN19) (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 the affiliates, 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 Furama Court project at Tsimshatsui, Kowloon, Hong Kong.
- (g) The advances were provided to finance the property development projects situated in Hong Kong.
- (h) The advance was provided to Naples Investments Limited to finance its investments in the hotel and related operation in the Philippines.
- (i) The advance was provided to Orwell Investments Pte Ltd for its on-lending to its subsidiary to finance the latter’s golf club and related operations in the Mainland of China.

# Report of the Directors

## PRACTICE NOTE 19 TO THE LISTING RULES (“PN19”) (continued)

Financial assistance provided to and guarantees given for affiliated companies (paragraph 3.3 of PN19)

In compliance with PN19, the proforma combined balance sheet of the affiliated companies as at the balance sheet date is disclosed as follows:

|                                           | HK\$'000           |
|-------------------------------------------|--------------------|
| Fixed assets                              | 308,461            |
| Film rights                               | 112,952            |
| Properties under development              | 928,420            |
| Interests in associates                   | 252,296            |
| Amount due from a related company         | 1,500,040          |
| Interests in jointly controlled entities  | 1,048              |
| Net current liabilities                   | <u>(165,065)</u>   |
| <br>Total assets less current liabilities | <br>2,938,152      |
| <br>Long term borrowings                  | <br>(330,060)      |
| Deferred income                           | (42,743)           |
| Amounts due to shareholders               | <u>(1,870,440)</u> |
|                                           | <br><u>694,909</u> |
| <br>CAPITAL AND RESERVES                  |                    |
| Issued capital                            | 344,382            |
| Share premium account                     | 2,888,305          |
| Contributed surplus                       | 891,289            |
| Exchange fluctuation reserve              | 17,681             |
| Accumulated losses                        | <u>(3,446,954)</u> |
|                                           | <br>694,703        |
| Minority interests                        | <u>206</u>         |
|                                           | <br><u>694,909</u> |

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

# Report of the Directors

## 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 comprises the two 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  
7th November, 2003

# Report of the Auditors



To the members

Lai Sun Development Company Limited  
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 37 to 101 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

## Report of the Auditors

### BASIS OF OPINION (continued)

Scope limitations — Interest in an associate, eSun Holdings Limited (“eSun”) and its subsidiaries (collectively the “eSun Group”)

Included in the Group’s interests in associates as at 31st July, 2003 is the Group’s share of net assets of the eSun Group of HK\$805,452,000. As further detailed in note 19 to the financial statements, the auditors of eSun issued a disclaimer opinion on the financial statements of the eSun Group for the year ended 31st December, 2002 because of the possible effects of scope limitations in respect of (i) the recoverability of the amount of HK\$1,500,040,000 due by the Group to the eSun Group (the “Debt”) and (ii) the impairment of film rights owned by the eSun Group with a carrying amount of HK\$113,109,000. We have been unable either to obtain sufficient reliable information or to carry out any alternative auditing procedures to satisfy ourselves as to the value of the Group’s share of net assets of the eSun Group included in the consolidated balance sheet as at 31st July, 2003. Included in the Company’s balance sheet as at 31st July, 2003 is its 37.86% interest in eSun of HK\$896,971,000 and the Company’s interests in subsidiaries, which in turn held a 4.68% interest in eSun, with an aggregate carrying value of HK\$130,599,000. We have also been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the carrying value of the Company’s interests in eSun and in these subsidiaries as at 31st July, 2003.

Any adjustments that might have been found necessary in respect of the above scope limitations would have a consequential impact on the deficiency in assets of the Group and the Company as at 31st July, 2003 and the net loss attributable to the shareholders for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

# Report of the Auditors

## FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

As detailed in note 2 to the financial statements, the Group defaulted in the repayment of the Debt due to the eSun Group on 31st December, 2002 and redemption of its exchangeable bonds (the “Exchangeable Bonds”) and convertible bonds (the “Convertible Bonds”) on 31st March, 2003. Such defaults, in turn, constituted a technical event of default under all of the Group’s other borrowing facilities. As at the date of our report, the Group has yet to reach an agreement with the holders of the Exchangeable Bonds, the holders of the Convertible Bonds, eSun and its other financial creditors (collectively “All Financial Creditors”) on the terms of a comprehensive restructuring of the Group’s indebtedness (the “Debt Restructuring Plan”). The Group is currently operating under a period of informal standstill. In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the circumstances giving rise to concerns regarding the fundamental uncertainties relating to the adoption of the going concern basis of presentation. The financial statements have been prepared on a going concern basis, the validity of which depends on the Group’s success in securing the agreement of All Financial Creditors to the Debt Restructuring Plan (including the continuance of the informal standstill in the meantime), the Group’s success in carrying out an orderly disposal of certain of the Group’s assets and the Group’s success in obtaining financing or refinancing arrangements to generate additional positive cash flows for the Group’s ongoing operations. The financial statements do not include any adjustments that would result from the failure to secure the Debt Restructuring Plan with All Financial Creditors, complete the assets disposal programme and obtain financing or refinancing arrangements. We consider that appropriate disclosures have been made but, because of the significant uncertainty relating to whether the securing of the agreement of All Financial Creditors to the Debt Restructuring Plan, the successful orderly disposal of the Group’s assets and the successful financing or refinancing arrangements of the bank and other borrowings will be forthcoming, we are not able to determine whether the going concern basis adopted in the financial statements is appropriate.

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## DISCLAIMER OF OPINION

Because of the significance of the possible effects of the scope limitations in evidence available to us as mentioned in the “Basis of opinion” above and because of the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st July, 2003 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young  
*Certified Public Accountants*

Hong Kong  
7th November, 2003

# Consolidated Profit and Loss Account

Year ended 31st July, 2003

|                                                                   | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000   |
|-------------------------------------------------------------------|-------|------------------|--------------------|
| TURNOVER                                                          | 7     | 906,590          | 934,720            |
| Cost of sales                                                     |       | <u>(396,789)</u> | <u>(350,219)</u>   |
| Gross profit                                                      |       | 509,801          | 584,501            |
| Other revenue                                                     |       | 67,815           | 132,710            |
| Administrative expenses                                           |       | (275,467)        | (356,297)          |
| Other operating income, net                                       |       | 17,842           | 52,735             |
| Gain/(loss) on disposal of subsidiaries                           |       | 19,230           | (296,361)          |
| Impairment of properties under development                        |       | —                | (44,267)           |
| Impairment of long term unlisted investments                      |       | <u>(7,772)</u>   | <u>(62,400)</u>    |
| PROFIT FROM OPERATING ACTIVITIES                                  | 8     | 331,449          | 10,621             |
| Finance costs                                                     | 10    | (473,255)        | (567,748)          |
| Share of profits and losses of associates                         |       | (5,745)          | (232,507)          |
| Amortisation of goodwill on acquisition of an associate           |       | (26,545)         | (6,636)            |
| Impairment in value of goodwill of an associate                   |       | —                | (228,258)          |
| Impairment in value of associates                                 |       | (36,804)         | (318,000)          |
| Loss on disposal of associates                                    |       | (73,265)         | (538,662)          |
| Loss on deemed disposal of an associate                           |       | (103,695)        | —                  |
| Loss on disposal of partial interest in an associate              |       | <u>(16,628)</u>  | <u>—</u>           |
| LOSS BEFORE TAX                                                   |       | (404,488)        | (1,881,190)        |
| Tax                                                               | 12    | <u>(28,516)</u>  | <u>(35,927)</u>    |
| LOSS BEFORE MINORITY INTERESTS                                    |       | (433,004)        | (1,917,117)        |
| Minority interests                                                |       | <u>(28,036)</u>  | <u>(24,391)</u>    |
| NET LOSS FROM ORDINARY ACTIVITIES<br>ATTRIBUTABLE TO SHAREHOLDERS | 13    | <u>(461,040)</u> | <u>(1,941,508)</u> |
| LOSS PER SHARE                                                    | 14    |                  |                    |
| Basic                                                             |       | <u>HK\$0.12</u>  | <u>HK\$0.52</u>    |
| Diluted                                                           |       | <u>N/A</u>       | <u>N/A</u>         |

# Consolidated Balance Sheet

31st July, 2003

|                                                        | Notes | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
|--------------------------------------------------------|-------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>                              |       |                    |                    |
| Fixed assets                                           | 15    | 1,837,653          | 1,294,943          |
| Investment properties                                  | 16    | 4,503,410          | 4,987,860          |
| Properties under development                           | 17    | 1,400              | 116,592            |
| Interests in associates                                | 19    | 966,080            | 2,082,375          |
| Long term investments                                  | 20    | 357,791            | 173,531            |
| Long term note receivable                              | 21    | —                  | —                  |
| Long term prepayment                                   | 22    | —                  | 194,000            |
| Pledged bank balances and time deposits                | 23    | —                  | 70,053             |
| Pension scheme assets                                  | 9     | 18,298             | —                  |
|                                                        |       | <u>7,684,632</u>   | <u>8,919,354</u>   |
| <b>CURRENT ASSETS</b>                                  |       |                    |                    |
| Short term investments                                 | 24    | 7,370              | 6,953              |
| Completed properties for sale                          | 25    | 5,246              | 8,637              |
| Inventories                                            |       | 7,502              | 9,587              |
| Debtors and deposits                                   | 26(a) | 135,185            | 108,116            |
| Pledged bank balances and time deposits                | 23    | 120,390            | 23,007             |
| Cash and cash equivalents                              | 23    | 110,927            | 238,384            |
|                                                        |       | <u>386,620</u>     | <u>394,684</u>     |
| <b>CURRENT LIABILITIES</b>                             |       |                    |                    |
| Creditors, deposits received and accruals              | 26(b) | 308,671            | 232,231            |
| Tax payable                                            |       | 107,392            | 103,930            |
| Interest-bearing bank and other borrowings             | 27    | 3,956,832          | 2,445,317          |
| Provision for premium on bonds redemption              | 28    | 612,390            | 600,692            |
| Provision for premium on loan repayment                | 29    | 26,875             | —                  |
| Bonds payable                                          | 30    | 621,671            | 740,025            |
| Convertible bonds payable                              | 31    | 906,750            | 965,250            |
| Amount due to an associate                             | 19    | 1,500,040          | 1,500,040          |
|                                                        |       | <u>8,040,621</u>   | <u>6,587,485</u>   |
| <b>NET CURRENT LIABILITIES</b>                         |       | <u>(7,654,001)</u> | <u>(6,192,801)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> — page 39 |       | 30,631             | 2,726,553          |

# Consolidated Balance Sheet

31st July, 2003

|                                                 | Notes | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
|-------------------------------------------------|-------|--------------------|--------------------|
| <hr/>                                           |       |                    |                    |
| TOTAL ASSETS LESS CURRENT LIABILITIES — page 38 |       | 30,631             | 2,726,553          |
| NON-CURRENT LIABILITIES                         |       |                    |                    |
| Deferred tax                                    | 32    | (5,065)            | (380)              |
| Long term rental deposits received              |       | (40,294)           | (62,981)           |
| Interest-bearing bank and other borrowings      | 27    | —                  | (1,493,000)        |
| Provision for premium on loan repayment         | 29    | —                  | (52,500)           |
|                                                 |       | <u>(45,359)</u>    | <u>(1,608,861)</u> |
|                                                 |       | <u>(14,728)</u>    | <u>1,117,692</u>   |
| CAPITAL AND RESERVES                            |       |                    |                    |
| Issued capital                                  | 33    | 1,873,001          | 1,873,001          |
| Reserves                                        | 34(a) | <u>(2,247,157)</u> | <u>(1,106,583)</u> |
|                                                 |       | (374,156)          | 766,418            |
| MINORITY INTERESTS                              |       |                    |                    |
|                                                 |       | <u>359,428</u>     | <u>351,274</u>     |
|                                                 |       | <u>(14,728)</u>    | <u>1,117,692</u>   |

Lam Kin Ngok, Peter  
Director

Lau Shu Yan, Julius  
Director

# Consolidated Statement of Changes in Equity

Year ended 31st July, 2003

|                                                                | Issued<br>capital<br>HK\$'000 | Share<br>premium<br>account<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Revaluation<br>reserve for<br>properties<br>under<br>development<br>held for<br>investment<br>potential<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------------------------------------------|-------------------------------|-----------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------|------------------------------------------------|-----------------------------------|-------------------|
| At 1st August, 2001                                            | 1,873,001                     | 5,858,164                               | 2,618,836                                                    | 387,749                                                                                                             | 1,200,000                                    | 75,420                         | 63,776                                         | (8,210,631)                       | 3,866,315         |
| Deficit on revaluation of<br>investment properties             | —                             | —                                       | (658,638)                                                    | —                                                                                                                   | —                                            | —                              | —                                              | —                                 | (658,638)         |
| Share of revaluation surplus/<br>(deficit) of associates       | —                             | —                                       | 381                                                          | (36,449)                                                                                                            | —                                            | —                              | —                                              | —                                 | (36,068)          |
| Share of reserve of associates                                 | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | (3,757)                        | —                                              | —                                 | (3,757)           |
| Exchange realignments:                                         |                               |                                         |                                                              |                                                                                                                     |                                              |                                |                                                |                                   |                   |
| Subsidiaries                                                   | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | 147                                            | —                                 | 147               |
| Associates                                                     | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | (212)                                          | —                                 | (212)             |
| Net losses not recognised<br>in the profit and<br>loss account | —                             | —                                       | (658,257)                                                    | (36,449)                                                                                                            | —                                            | (3,757)                        | (65)                                           | —                                 | (698,528)         |
| Release upon disposal<br>of subsidiaries                       | —                             | —                                       | 113,921                                                      | —                                                                                                                   | —                                            | —                              | —                                              | —                                 | 113,921           |
| Release upon disposal<br>of associates                         | —                             | —                                       | (147,390)                                                    | (351,300)                                                                                                           | —                                            | (71,663)                       | (3,429)                                        | —                                 | (573,782)         |
| Net loss for the year                                          | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | —                                              | (1,941,508)                       | (1,941,508)       |
| At 31st July, 2002 and<br>1st August, 2002:                    |                               |                                         |                                                              |                                                                                                                     |                                              |                                |                                                |                                   |                   |
| As previously reported                                         | 1,873,001                     | 5,858,164                               | 1,927,110                                                    | —                                                                                                                   | 1,200,000                                    | —                              | 60,282                                         | (10,152,139)                      | 766,418           |
| Prior year adjustment<br>(note 9)                              | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | —                                              | 13,932                            | 13,932            |
| As restated — page 41                                          | 1,873,001                     | 5,858,164                               | 1,927,110                                                    | —                                                                                                                   | 1,200,000                                    | —                              | 60,282                                         | (10,138,207)                      | 780,350           |

# Consolidated Statement of Changes in Equity

Year ended 31st July, 2003

|                                                                | Issued<br>capital<br>HK\$'000 | Share<br>premium<br>account<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Revaluation<br>reserve for<br>properties<br>under<br>development<br>held for<br>investment<br>potential<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------------------------------------------|-------------------------------|-----------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------|------------------------------------------------|-----------------------------------|-------------------|
| As restated — page 40                                          | 1,873,001                     | 5,858,164                               | 1,927,110                                                    | —                                                                                                                   | 1,200,000                                    | —                              | 60,282                                         | (10,138,207)                      | 780,350           |
| Deficit on revaluation of<br>investment properties             | —                             | —                                       | (680,752)                                                    | —                                                                                                                   | —                                            | —                              | —                                              | —                                 | (680,752)         |
| Exchange realignments:                                         |                               |                                         |                                                              |                                                                                                                     |                                              |                                |                                                |                                   |                   |
| Subsidiaries                                                   | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | 57                                             | —                                 | 57                |
| Associates                                                     | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | (972)                                          | —                                 | (972)             |
| Net losses not recognised<br>in the profit and<br>loss account | —                             | —                                       | (680,752)                                                    | —                                                                                                                   | —                                            | —                              | (915)                                          | —                                 | (681,667)         |
| Release upon disposal<br>of subsidiaries                       | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | (2,305)                                        | —                                 | (2,305)           |
| Release upon deemed<br>disposal of an associate                | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | (9,494)                                        | —                                 | (9,494)           |
| Net loss for the year                                          | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | —                                              | (461,040)                         | (461,040)         |
| At 31st July, 2003                                             | <u>1,873,001</u>              | <u>5,858,164*</u>                       | <u>1,246,358*</u>                                            | <u>—</u>                                                                                                            | <u>1,200,000*</u>                            | <u>—</u>                       | <u>47,568*</u>                                 | <u>(10,599,247)*</u>              | <u>(374,156)</u>  |
| Reserves retained by:                                          |                               |                                         |                                                              |                                                                                                                     |                                              |                                |                                                |                                   |                   |
| Company and subsidiaries                                       | 1,873,001                     | 5,858,164                               | 1,246,358                                                    | —                                                                                                                   | 1,200,000                                    | —                              | (6,641)                                        | (8,479,088)                       | 1,691,794         |
| Associates                                                     | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | 54,209                                         | (2,120,159)                       | (2,065,950)       |
| At 31st July, 2003                                             | <u>1,873,001</u>              | <u>5,858,164</u>                        | <u>1,246,358</u>                                             | <u>—</u>                                                                                                            | <u>1,200,000</u>                             | <u>—</u>                       | <u>47,568</u>                                  | <u>(10,599,247)</u>               | <u>(374,156)</u>  |
| Reserves retained by:                                          |                               |                                         |                                                              |                                                                                                                     |                                              |                                |                                                |                                   |                   |
| Company and subsidiaries                                       | 1,873,001                     | 5,858,164                               | 1,927,110                                                    | —                                                                                                                   | 1,200,000                                    | —                              | (4,393)                                        | (7,850,870)                       | 3,003,012         |
| Associates                                                     | —                             | —                                       | —                                                            | —                                                                                                                   | —                                            | —                              | 64,675                                         | (2,301,269)                       | (2,236,594)       |
| At 31st July, 2002                                             | <u>1,873,001</u>              | <u>5,858,164</u>                        | <u>1,927,110</u>                                             | <u>—</u>                                                                                                            | <u>1,200,000</u>                             | <u>—</u>                       | <u>60,282</u>                                  | <u>(10,152,139)</u>               | <u>766,418</u>    |

\* These reserve accounts comprise consolidated reserves of debit balance of HK\$2,247,157,000 (2002: HK\$1,106,583,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31st July, 2003

|                                                                                                                    | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--------------------------------------------------------------------------------------------------------------------|-------|------------------|------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                                                                         |       |                  |                  |
| Loss before tax                                                                                                    |       | (404,488)        | (1,881,190)      |
| Adjustment for:                                                                                                    |       |                  |                  |
| Finance costs                                                                                                      | 10    | 473,255          | 567,748          |
| Share of profits and losses of associates                                                                          |       | 5,745            | 232,507          |
| Amortisation of goodwill on acquisition of an associate                                                            |       | 26,545           | 6,636            |
| Impairment in value of goodwill of an associate                                                                    |       | —                | 228,258          |
| Impairment in value of associates                                                                                  |       | 36,804           | 318,000          |
| Loss on disposal of associates                                                                                     |       | 73,265           | 538,662          |
| Loss on deemed disposal of an associate                                                                            |       | 103,695          | —                |
| Loss on disposal of partial interest in an associate                                                               |       | 16,628           | —                |
| (Gain)/loss on disposal of subsidiaries                                                                            |       | (19,230)         | 296,361          |
| Impairment of properties under development                                                                         |       | —                | 44,267           |
| Impairment of long term unlisted investments                                                                       |       | 7,772            | 62,400           |
| Interest income                                                                                                    | 8     | (36,448)         | (99,167)         |
| Dividend income from a long term unlisted investment                                                               | 8     | (100)            | —                |
| Gain on repurchase of bonds payable                                                                                | 8     | (9,041)          | —                |
| Write back of contingent loss in respect of a guarantee given to a bank                                            | 8     | —                | (71,720)         |
| Depreciation                                                                                                       | 8     | 30,119           | 30,604           |
| (Gain)/loss on disposal of fixed assets                                                                            | 8     | (5,886)          | 1,582            |
| Loss on disposal of properties under development                                                                   | 8     | 217              | —                |
| Loss on disposal of long term unlisted investments                                                                 | 8     | —                | 90               |
| (Write back of)/provisions for contingent losses in respect of profit guarantees                                   | 8     | (3,963)          | 6,498            |
| Provision for doubtful debts                                                                                       | 8     | —                | 4,220            |
| (Recovery of)/write off bad debts                                                                                  | 8     | (14,045)         | 3,075            |
| Exchange gains arising on the translation of the principal amounts of the Exchangeable Bonds and Convertible Bonds |       | —                | (65)             |
| Operating profit before working capital changes                                                                    |       | 280,844          | 288,766          |
| Increase in pension scheme assets                                                                                  |       | (665)            | —                |
| (Increase)/decrease in short term investments                                                                      |       | (417)            | 2,396            |
| Decrease in completed properties for sale                                                                          |       | 3,391            | 7,847            |
| Decrease in inventories                                                                                            |       | 2,362            | 2,411            |
| Decrease in debtors and deposits                                                                                   |       | 2,202            | 97,326           |
| Decrease in creditors, deposits received and accruals                                                              |       | (2,043)          | (88,724)         |
| Cash generated from operations — page 43                                                                           |       | 285,674          | 310,022          |

# Consolidated Cash Flow Statement

Year ended 31st July, 2003

|                                                         | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---------------------------------------------------------|-------|------------------|------------------|
| Cash generated from operations — page 42                |       | 285,674          | 310,022          |
| Interest received                                       |       | 4,381            | 28,227           |
| Interest paid on bank and other borrowings              |       | (177,198)        | (273,260)        |
| Interest paid to GPEL (note 19)                         |       | (31,439)         | (75,002)         |
| Interest paid on bonds payable                          |       | (31,040)         | (37,007)         |
| Interest paid on convertible bonds payable              |       | (54,378)         | (38,617)         |
| Hong Kong profits tax paid                              |       | (30,610)         | (31,360)         |
| Taxes refunded/(paid) outside Hong Kong                 |       | (6)              | 1,204            |
| Net cash outflow from operating activities              |       | <u>(34,616)</u>  | <u>(115,793)</u> |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>              |       |                  |                  |
| Purchases of fixed assets                               |       | (35,781)         | (16,975)         |
| Additions to investment properties                      |       | (2,052)          | (1,724)          |
| Additions to properties under development               |       | (876)            | (7,306)          |
| Acquisition of long term investments                    |       | —                | (3,892)          |
| Proceeds from disposal of fixed assets                  |       | 8,143            | 2,413            |
| Revenue generated from properties under development     |       | —                | 235              |
| Proceeds from disposal of properties under development  |       | 95,300           | —                |
| Acquisition of subsidiaries                             | 35(b) | (548,073)        | —                |
| Disposal of subsidiaries                                | 35(c) | 4,120            | 431,309          |
| Net sales proceeds from disposal of associates          |       | 196,190          | 58,463           |
| Proceeds from disposal of long term investments         |       | —                | 9,957            |
| Dividends received from associates                      |       | 2,224            | —                |
| Advances to associates                                  |       | (35,744)         | (73,993)         |
| Repayment from/(advance to) investee companies          |       | 45,402           | (8,248)          |
| Dividends received from a long term unlisted investment |       | 100              | —                |
| Increase in pledged bank balances and time deposits     |       | (27,330)         | (17,390)         |
| Net cash inflow/(outflow) from investing activities     |       | <u>(298,377)</u> | <u>372,849</u>   |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>              |       |                  |                  |
| Proceeds from new bank loans                            |       | 795,626          | 207,082          |
| Repayment of bank loans                                 |       | (320,862)        | (622,915)        |
| Repayment of bonds payable                              |       | (41,134)         | —                |
| Repurchase of bonds payable                             |       | (99,614)         | —                |
| Repayment of convertible bonds payable                  |       | (58,500)         | —                |
| Bank charges and refinancing charges                    |       | (48,144)         | (46,091)         |
| Dividends paid to minority shareholders                 |       | (354)            | (11,530)         |
| Repayment to minority shareholders                      |       | (21,541)         | (23,410)         |
| Net cash inflow/(outflow) from financing activities     |       | <u>205,477</u>   | <u>(496,864)</u> |

# Consolidated Cash Flow Statement

Year ended 31st July, 2003

|                                                                                          | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|------------------------------------------------------------------------------------------|-------|------------------|------------------|
| <hr/>                                                                                    |       |                  |                  |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                                |       | (127,516)        | (239,808)        |
| Cash and cash equivalents at beginning of year                                           |       | 238,384          | 477,805          |
| Effect of foreign exchange rate changes, net                                             |       | <u>59</u>        | <u>387</u>       |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                                                 |       | <u>110,927</u>   | <u>238,384</u>   |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS                                        |       |                  |                  |
| Cash and bank balances                                                                   | 23    | 74,865           | 64,051           |
| Non-pledged time deposits with original maturity of less than three months when acquired | 23    | <u>36,062</u>    | <u>174,333</u>   |
|                                                                                          |       | <u>110,927</u>   | <u>238,384</u>   |

# Company Balance Sheet

31st July, 2003

|                                              | Notes | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
|----------------------------------------------|-------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                    |                    |
| Fixed assets                                 | 15    | 13,780             | 18,161             |
| Investment properties                        | 16    | 2,141,700          | 2,488,500          |
| Interests in subsidiaries                    | 18    | (1,243,552)        | (1,388,841)        |
| Interests in associates                      | 19    | 943,093            | 972,752            |
| Long term investments                        | 20    | 101,719            | 150,122            |
| Pledged bank balances and time deposits      | 23    | —                  | 70,053             |
|                                              |       | <u>1,956,740</u>   | <u>2,310,747</u>   |
| <b>CURRENT ASSETS</b>                        |       |                    |                    |
| Debtors and deposits                         |       | 36,360             | 21,675             |
| Pledged bank balances and time deposits      | 23    | 117,391            | 23,007             |
| Cash and cash equivalents                    | 23    | 28,175             | 111,843            |
|                                              |       | <u>181,926</u>     | <u>156,525</u>     |
| <b>CURRENT LIABILITIES</b>                   |       |                    |                    |
| Creditors, deposits received and accruals    |       | 66,499             | 62,046             |
| Tax payable                                  |       | 64,454             | 64,400             |
| Interest-bearing bank and other borrowings   | 27    | 1,881,500          | 587,400            |
| Provision for premium on bonds redemption    | 28    | 612,390            | 600,692            |
|                                              |       | <u>2,624,843</u>   | <u>1,314,538</u>   |
| <b>NET CURRENT LIABILITIES</b>               |       | <u>(2,442,917)</u> | <u>(1,158,013)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | (486,177)          | 1,152,734          |
| <b>NON-CURRENT LIABILITIES</b>               |       |                    |                    |
| Long term rental deposits received           |       | (26,656)           | (21,694)           |
| Interest-bearing bank and other borrowings   | 27    | —                  | (868,000)          |
|                                              |       | <u>(26,656)</u>    | <u>(889,694)</u>   |
|                                              |       | <u>(512,833)</u>   | <u>263,040</u>     |

# Company Balance Sheet

31st July, 2003

|                      | Notes | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
|----------------------|-------|--------------------|--------------------|
| <hr/>                |       |                    |                    |
| CAPITAL AND RESERVES |       |                    |                    |
| Issued capital       | 33    | 1,873,001          | 1,873,001          |
| Reserves             | 34(b) | <u>(2,385,834)</u> | <u>(1,609,961)</u> |
|                      |       | <u>(512,833)</u>   | <u>263,040</u>     |

Lam Kin Ngok, Peter  
*Director*

Lau Shu Yan, Julius  
*Director*

# Notes to Financial Statements

31st July, 2003

## 1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- property development for sale
- property investment
- the investment in and operation of hotels and restaurants
- investment holding

## 2. BASIS OF PRESENTATION

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$461 million (2002: HK\$1,942 million). At the balance sheet date, the Group had consolidated net current liabilities of HK\$7,654 million (2002: HK\$6,193 million) and consolidated deficiency in assets of HK\$374 million (2002: net assets of HK\$766 million). The deterioration in Group's net asset position primarily resulted from the valuation deficit arising in respect of the Group's investment properties and the loss incurred by the Group during the year.

During the year, the Group had ongoing discussions with all of its financial creditors with the objective of refinancing the Group to put it in a better financial position. On 17th December, 2002, meetings with the Exchangeable Bondholders (note 30) and the Convertible Bondholders (note 31) were held at which, among other things, resolutions to approve the deferral of the Group's obligations to redeem the Exchangeable Bonds (note 30) and the Convertible Bonds (note 31) to 31st March, 2003 were duly passed.

The Group defaulted in the repayment of the Debt (note 19) due to Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), on 31st December, 2002. In addition, the Convertible Bonds were due to be redeemed by the Group on 31st March, 2003 but were not so redeemed and, at the same time, the Group also failed to satisfy the redemption rights exercised by certain of the Exchangeable Bondholders, which in turn, has resulted in the Exchangeable Bonds becoming due for redemption in their entirety. Accordingly, the Group had defaulted in the repayment of the Debt and the redemption of both of the Convertible Bonds and the Exchangeable Bonds. Such defaults, in turn, constituted a technical event of default under all of the Group's other borrowing facilities.

As at the date of approval of these financial statements, the Group has yet to reach an agreement with the Exchangeable Bondholders, the Convertible Bondholders, eSun and its other financial creditors as to the terms of a comprehensive restructuring of the Group's indebtedness (the "Debt Restructuring Plan"). The Group is currently operating under a period of informal standstill and up to now, neither the Exchangeable Bondholders, the Convertible Bondholders, eSun nor its other financial creditors has taken any action to enforce their respective securities. The Group is, with the assistance of its financial and legal advisers, conducting ongoing negotiations with all of its financial creditors with a view to securing the terms of a Debt Restructuring Plan acceptable to all relevant parties.

Throughout the year and up to the date of approval of these financial statements, the Group continued to implement an orderly disposal of its assets, including properties and other investments, to generate positive cash flows for the partial repayment of certain bonds payable, bank and other borrowings and to help provide sufficient working capital for the Group's operations.

# Notes to Financial Statements

31st July, 2003

## 2. BASIS OF PRESENTATION (continued)

The directors of the Company believe that the Group will be able to secure the agreement of all its financial creditors to the Debt Restructuring Plan and, at the same time will be able to continue the orderly disposal of the assets of the Group and to obtain financing or refinancing arrangements to generate additional positive cash flows. On this basis, the directors of the Company consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 34: “Employee benefits”

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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 adopting these SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 40 to 41 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

# Notes to Financial Statements

31st July, 2003

### 3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”) (continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The significant reclassifications resulting from the change in presentation are that taxes, interest received and interest paid are now included in cash flows from operating activities, dividends received are now included in cash flows from investing activities and dividends paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 4 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in a change in the method of accounting for the Group’s defined benefit pension schemes. Previously, the accounting for the pension schemes consisted of recording the contributions payable under the schemes as an expense in the profit and loss account. Under SSAP 34, however, an actuarial estimate is made of the present value of the Group’s future obligations under the schemes, with the net of this obligation and the fair value of the assets set aside under the schemes being recognised in the balance sheet in non-current assets. Movements in the resulting net asset are mainly recorded in the profit and loss account. The recognition of the net asset has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in notes 4 and 9 to the financial statements.

### 4. 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 requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and short term investments, 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 31st July, 2003. 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 intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Associates

An associate is a company, not being a subsidiary, 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 net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

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Certain interests 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.

### Goodwill

Goodwill arising on the acquisition of subsidiaries and associates 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 of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business Combinations" was adopted as at 1st August, 2001. Prior to that date, goodwill arising on acquisitions of subsidiaries was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1st August, 2001 is treated according to the SSAP 30 goodwill accounting policy above.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

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 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 and associates 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.

SSAP 30 "Business combinations" was adopted as at 1st August, 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the consolidated reserves. Negative goodwill on acquisitions subsequent to 1st August, 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or 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 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 consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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 any 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.

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### Fixed assets and depreciation

No depreciation is provided for hotel and investment properties. Other fixed assets 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 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 asset, the expenditure is capitalised as an additional cost of that asset.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

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                    | Over the unexpired lease terms |
| Buildings                         | 2.5% — 5.0%                    |
| Leasehold improvements            | 2.5% — 20.0%                   |
| Furniture, fixtures and equipment | 5.0% — 20.0%                   |
| Motor vehicles                    | 10.0% — 25.0%                  |
| Computers                         | 10.0% — 25.0%                  |
| Motor vessels                     | 25.0%                          |

Hotel properties are interests in land and buildings and their integral fixed plant which are collectively used in the operation of hotels, and are stated at cost. It is the Group's policy to maintain the hotel properties in such condition that their residual values are not diminished by the passage of time and, therefore, any element of depreciation is insignificant. Accordingly, the directors consider that it is not necessary for depreciation to be charged in respect of the hotel properties. The related repairs and maintenance are charged to the profit and loss account in the year in which they are incurred. The costs of significant improvements are capitalised.

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, 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 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

Properties under development are stated at cost less any impairment losses. Cost includes the cost of land, construction, financing and other related expenses.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 prevailing market conditions. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by apportionment of the total land and building costs attributable to unsold properties.

### Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

### Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values, as determined by the directors, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

### Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost for food, beverages, cutlery, linen and supplies used in hotel and restaurant operations is determined on the first-in, first-out basis. Cost for other inventories is determined on the weighted average basis and comprises materials, direct labour and an appropriate proportion of all production overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

The premium on bonds redemption represents the excess of the redemption price payable by the Group on the maturity of the bonds over the respective principal amounts of the bonds. Provision for premium on bonds redemption is made and charged to the profit and loss account on a systematic basis calculated with reference to the terms of the bond documents.

The provision for premium on loan repayment is made and charged to the profit and loss account in accordance with the terms of the loan agreements.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### 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 unless its realisation is assured beyond reasonable doubt.

### Operating leases

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 developed for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the Hong Kong Government or a completion certificate by the relevant government authorities, whichever is later;
- (b) from the sale of investment properties, when all the conditions of a sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (c) rental and property management fee income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (d) from hotel and restaurant operations and other related service income, in the period in which such services are rendered;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition or construction 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 cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the weighted average of the attributable borrowing cost of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

### Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are include in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAPs 11 and 15 has had no significant effect on the financial statements.

### Employee benefits

#### *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

#### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### *Employment Ordinance long service payments (continued)*

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

#### *Retirement benefits*

The Group operates funded final salary defined benefit pension schemes (the “Schemes”) for those employees who are eligible to participate in the Scheme. The expected costs of providing pensions under the Schemes are charged to the profit and loss account over the periods during which the employees provide the related services to the Group.

An actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of the Group’s future defined benefit obligation under the Schemes earned by the employees as at the balance sheet date (the “Scheme obligation”). The assets contributed by the Group to the Schemes (the “Scheme assets”) are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the balance sheet date.

The effect of actuarial gains and losses experienced in the estimation of the Scheme obligation and the valuation of the Scheme assets is initially recorded in the balance sheet and is subsequently recognised in the profit and loss account only when the net cumulative actuarial gains or losses in the balance sheet exceed 10% of the higher of the Scheme obligation and the fair value of Scheme assets at the beginning of the period. Such “excess” net cumulative actuarial gains or losses are recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the Schemes.

The net of the Scheme obligation and the fair value of the Scheme assets at the balance sheet date, together with the actuarial gains and losses remaining in the balance sheet at that date, is recognised in the balance sheet within non-current assets or non-current liabilities, as appropriate. If the net amount results in an asset, the amount of the asset is limited to the net total of any net cumulative actuarial losses remaining in the balance sheet, and the present value of any future refunds from the Schemes or reductions in future contributions to the Schemes. Movements in the net asset or liability recognised in the balance sheet during the period, other than those deferred in the balance sheet, are recorded in the profit and loss account for the period.

The amounts of the contributions payable by the Group to the Schemes are determined by the actuary using the projected unit credit actuarial valuation method.

Prior to the adoption of SSAP 34, the accounting for the Schemes consisted of recording the contributions payable by the Group under the Schemes as an expense in the profit and loss account for the period, with no amounts being recorded in the balance sheet. The initial recognition of the transitional net asset under SSAP 34 has resulted in a prior year adjustment as at 1st August, 2002 in accordance with the transitional provisions of SSAP 34, with the corresponding entry being credited to accumulated losses account at that date. Further details of the transitional effects of adopting SSAP 34 are included in the consolidated statement of changes in equity and in note 9 to the financial statements.

# Notes to Financial Statements

31st July, 2003

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### *Retirement benefits (continued)*

In addition, the Group also operates defined contribution Mandatory Provident Fund retirement benefits schemes (the “MPF Schemes”) under the Mandatory Provident Fund Schemes Ordinance and defined contribution retirement schemes (the “Contribution Schemes”) for those employees who are eligible to participate in the respective scheme. The assets of the schemes are held separately from those of the Group in the respective independently administered funds. Contributions to the MPF Schemes and the Contribution Schemes 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 respective scheme. The Group’s employer contributions vest fully with the employees when contributed into the MPF Schemes, while under the Contribution Schemes, when an employee leaves the scheme prior to his/her interest in the Group’s contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The employees of the Group’s subsidiaries which operate in Mainland China and Vietnam are required to participate in a central pension scheme operated by the government of the country in which the subsidiaries operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the respective central pension scheme.

## 5. SEGMENT INFORMATION

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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 services they provide. Each of the Group’s business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the property development and sales segment engages in property development and sale of properties;
- (b) the property investment segment comprises leasing of and sale of investment properties;
- (c) the hotel and restaurant operations segment engages in the operation of hotels and restaurants; and
- (d) the others segment comprises the Group’s property management services business, which provides property management and security services to residential, office, industrial and commercial properties.

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

Intersegment sales and transfers are transacted with reference to the prevailing market prices.

# Notes to Financial Statements

31st July, 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, profit/(loss) and asset, liability and certain expenditure information for the Group's business segments.

#### Group

|                                              | Property development and sales |                  | Property investment |                  | Hotel and restaurant operations |                  | Others           |                  | Eliminations     |                  | Consolidated     |                  |
|----------------------------------------------|--------------------------------|------------------|---------------------|------------------|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                              | 2003<br>HK\$'000               | 2002<br>HK\$'000 | 2003<br>HK\$'000    | 2002<br>HK\$'000 | 2003<br>HK\$'000                | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Segment revenue:                             |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  |                  |                  |
| Sales to external customers                  | 98,633                         | 5,661            | 390,232             | 415,479          | 400,554                         | 498,972          | 17,171           | 14,608           | —                | —                | 906,590          | 934,720          |
| Intersegment sales                           | —                              | —                | 6,062               | 13,087           | 3,375                           | —                | 17,479           | 16,522           | (26,916)         | (29,609)         | —                | —                |
| Other revenue                                | 449                            | 608              | 1,291               | 20,036           | 146                             | 3,702            | 6,407            | 5,244            | —                | —                | 8,293            | 29,590           |
| <b>Total</b>                                 | <b>99,082</b>                  | <b>6,269</b>     | <b>397,585</b>      | <b>448,602</b>   | <b>404,075</b>                  | <b>502,674</b>   | <b>41,057</b>    | <b>36,374</b>    | <b>(26,916)</b>  | <b>(29,609)</b>  | <b>914,883</b>   | <b>964,310</b>   |
| Segment results                              | (11,630)                       | (54,959)         | 301,351             | 52,697           | 52,282                          | 57,447           | 28,098           | (23,124)         | —                | —                | 370,101          | 32,061           |
| Interest income and unallocated gains        |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | 59,522           | 103,120          |
| Unallocated expenses                         |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | (90,402)         | (62,160)         |
| Impairment of long term unlisted investments |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | (7,772)          | (62,400)         |
| Profit from operating activities — page 60   |                                |                  |                     |                  |                                 |                  |                  |                  |                  |                  | 331,449          | 10,621           |

# Notes to Financial Statements

31st July, 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

#### Group

|                                                                   | Property<br>development<br>and sales |           | Property<br>investment |          | Hotel<br>and restaurant<br>operations |          | Others   |          | Eliminations |          | Consolidated |             |
|-------------------------------------------------------------------|--------------------------------------|-----------|------------------------|----------|---------------------------------------|----------|----------|----------|--------------|----------|--------------|-------------|
|                                                                   | 2003                                 | 2002      | 2003                   | 2002     | 2003                                  | 2002     | 2003     | 2002     | 2003         | 2002     | 2003         | 2002        |
|                                                                   | HK\$'000                             | HK\$'000  | HK\$'000               | HK\$'000 | HK\$'000                              | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000     | HK\$'000    |
| Profit from operating<br>activities — page 59                     |                                      |           |                        |          |                                       |          |          |          |              |          | 331,449      | 10,621      |
| Finance costs                                                     |                                      |           |                        |          |                                       |          |          |          |              |          | (473,255)    | (567,748)   |
| Share of profits and<br>losses of<br>associates                   | (19,661)                             | 4         | —                      | —        | —                                     | —        | —        | —        | —            | —        | (19,661)     | 4           |
| Share of profits and losses of<br>associates — unallocated        |                                      |           |                        |          |                                       |          |          |          |              |          | 13,916       | (232,511)   |
| Amortisation of goodwill on<br>acquisition of an associate        |                                      |           |                        |          |                                       |          |          |          |              |          | (26,545)     | (6,636)     |
| Impairment in value of<br>goodwill of an associate                |                                      |           |                        |          |                                       |          |          |          |              |          | —            | (228,258)   |
| Impairment in value<br>of associates                              | (32,920)                             | (318,000) | —                      | —        | —                                     | —        | —        | —        | —            | —        | (32,920)     | (318,000)   |
| Impairment in value<br>of associates<br>— unallocated             |                                      |           |                        |          |                                       |          |          |          |              |          | (3,884)      | —           |
| Loss on disposal of associates                                    |                                      |           |                        |          |                                       |          |          |          |              |          | (73,265)     | (538,662)   |
| Loss on deemed disposal<br>of an associate                        |                                      |           |                        |          |                                       |          |          |          |              |          | (103,695)    | —           |
| Loss on disposal of partial<br>interest in an associate           | (16,628)                             | —         | —                      | —        | —                                     | —        | —        | —        | —            | —        | (16,628)     | —           |
| Loss before tax                                                   |                                      |           |                        |          |                                       |          |          |          |              |          | (404,488)    | (1,881,190) |
| Tax                                                               |                                      |           |                        |          |                                       |          |          |          |              |          | (28,516)     | (35,927)    |
| Loss before minority interests                                    |                                      |           |                        |          |                                       |          |          |          |              |          | (433,004)    | (1,917,117) |
| Minority interests                                                |                                      |           |                        |          |                                       |          |          |          |              |          | (28,036)     | (24,391)    |
| Net loss from ordinary activities<br>attributable to shareholders |                                      |           |                        |          |                                       |          |          |          |              |          | (461,040)    | (1,941,508) |

# Notes to Financial Statements

31st July, 2003

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

#### Group

| Group                                         | Property<br>development and sales |          | Property<br>investment |           | Hotel and<br>restaurant operations |           | Others   |          | Eliminations |          | Consolidated     |                  |
|-----------------------------------------------|-----------------------------------|----------|------------------------|-----------|------------------------------------|-----------|----------|----------|--------------|----------|------------------|------------------|
|                                               | 2003                              | 2002     | 2003                   | 2002      | 2003                               | 2002      | 2003     | 2002     | 2003         | 2002     | 2003             | 2002             |
|                                               | HK\$'000                          | HK\$'000 | HK\$'000               | HK\$'000  | HK\$'000                           | HK\$'000  | HK\$'000 | HK\$'000 | HK\$'000     | HK\$'000 | HK\$'000         | HK\$'000         |
| Segment assets                                | 13,584                            | 133,586  | 4,536,778              | 5,002,010 | 1,909,967                          | 1,365,339 | 46,848   | 54,256   | —            | —        | 6,507,177        | 6,555,191        |
| Interests in associates                       | 160,320                           | 882,982  | —                      | —         | —                                  | —         | —        | —        | —            | —        | 160,320          | 882,982          |
| Interests in associates<br>— unallocated      |                                   |          |                        |           |                                    |           |          |          |              |          | 805,760          | 1,199,393        |
| Other unallocated assets                      |                                   |          |                        |           |                                    |           |          |          |              |          | 597,995          | 676,472          |
| Total assets                                  |                                   |          |                        |           |                                    |           |          |          |              |          | <u>8,071,252</u> | <u>9,314,038</u> |
| Segment liabilities                           | 34,603                            | 27,540   | 102,257                | 109,052   | 55,137                             | 44,016    | 3,394    | 13,178   | —            | —        | 195,391          | 193,786          |
| Interest-bearing bank<br>and other borrowings |                                   |          |                        |           |                                    |           |          |          |              |          | 3,956,832        | 3,938,317        |
| Provision for premium<br>on bonds redemption  |                                   |          |                        |           |                                    |           |          |          |              |          | 612,390          | 600,692          |
| Bonds payable                                 |                                   |          |                        |           |                                    |           |          |          |              |          | 621,671          | 740,025          |
| Convertible bonds<br>payable                  |                                   |          |                        |           |                                    |           |          |          |              |          | 906,750          | 965,250          |
| Amount due to<br>an associate                 |                                   |          |                        |           |                                    |           |          |          |              |          | 1,500,040        | 1,500,040        |
| Other unallocated<br>liabilities              |                                   |          |                        |           |                                    |           |          |          |              |          | 292,906          | 258,236          |
| Total liabilities                             |                                   |          |                        |           |                                    |           |          |          |              |          | <u>8,085,980</u> | <u>8,196,346</u> |
| Other segment information:                    |                                   |          |                        |           |                                    |           |          |          |              |          |                  |                  |
| Depreciation                                  | —                                 | —        | —                      | 17        | 21,692                             | 16,027    | 575      | 1,746    | —            | —        | 22,267           | 17,790           |
| Depreciation<br>— unallocated                 |                                   |          |                        |           |                                    |           |          |          |              |          | 7,852            | 12,814           |
|                                               |                                   |          |                        |           |                                    |           |          |          |              |          | <u>30,119</u>    | <u>30,604</u>    |
| Capital expenditure                           | 876                               | 7,306    | 196,302                | 1,724     | 587,505                            | 5,039     | 32       | 50       | —            | —        | 784,715          | 14,119           |
| Capital expenditure<br>— unallocated          |                                   |          |                        |           |                                    |           |          |          |              |          | 3,994            | 11,886           |
|                                               |                                   |          |                        |           |                                    |           |          |          |              |          | <u>788,709</u>   | <u>26,005</u>    |
| (Gain)/loss on disposal<br>of subsidiaries    | 3,927                             | 2,345    | —                      | 294,016   | —                                  | —         | (23,157) | —        | —            | —        | (19,230)         | 296,361          |
| Impairment of properties<br>under development | —                                 | 44,267   | —                      | —         | —                                  | —         | —        | —        | —            | —        | —                | 44,267           |

# Notes to Financial Statements

31st July, 2003

## 5. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments.

#### Group

|                             | Hong Kong      |                | Mainland of China |              | Vietnam        |                | Other locations |            | Consolidated   |                |
|-----------------------------|----------------|----------------|-------------------|--------------|----------------|----------------|-----------------|------------|----------------|----------------|
|                             | 2003           | 2002           | 2003              | 2002         | 2003           | 2002           | 2003            | 2002       | 2003           | 2002           |
|                             | HK\$'000       | HK\$'000       | HK\$'000          | HK\$'000     | HK\$'000       | HK\$'000       | HK\$'000        | HK\$'000   | HK\$'000       | HK\$'000       |
| Segment revenue:            |                |                |                   |              |                |                |                 |            |                |                |
| Sales to external customers | 762,556        | 790,599        | 100               | —            | 143,934        | 144,121        | —               | —          | 906,590        | 934,720        |
| Other revenue               | 3,033          | 24,438         | 4,960             | 4,348        | 226            | 644            | 74              | 160        | 8,293          | 29,590         |
| <b>Total</b>                | <b>765,589</b> | <b>815,037</b> | <b>5,060</b>      | <b>4,348</b> | <b>144,160</b> | <b>144,765</b> | <b>74</b>       | <b>160</b> | <b>914,883</b> | <b>964,310</b> |
| Other segment information:  |                |                |                   |              |                |                |                 |            |                |                |
| Segment assets              | 6,132,998      | 6,120,052      | 7,163             | 38,757       | 366,766        | 388,546        | 250             | 7,836      | 6,507,177      | 6,555,191      |
| Capital expenditure         | 785,304        | 22,203         | 13                | 30           | 3,392          | 3,772          | —               | —          | 788,709        | 26,005         |

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## 6. RELATED PARTY TRANSACTIONS

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

|                                      | Notes | Group    |          |
|--------------------------------------|-------|----------|----------|
|                                      |       | 2003     | 2002     |
|                                      |       | HK\$'000 | HK\$'000 |
| Interest income from associates      | (i)   | 32,067   | 87,768   |
| Interest expenses to GPEL (note 19)  | (ii)  | 66,289   | 75,002   |
| Rental income from a related company | (iii) | 6,106    | 10,344   |
| Rental expenses to an associate      | (iv)  | —        | 48,333   |

# Notes to Financial Statements

31st July, 2003

## 6. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The interest income from associates arose from advances made thereto. Interest was charged at the prevailing market rates.
- (ii) The terms of the interest paid or payable to GPEL are detailed in note 19 to the financial statements.
- (iii) Rental income was received from a subsidiary of the Company's controlling shareholder, and was based on terms stated in the lease agreement.
- (iv) The rental expenses were paid to an associate and were based on terms stated in the lease agreement.

## 7. TURNOVER

Turnover comprises the proceeds from the sale of properties, rental income, and income from hotel, restaurant and other operations. Revenue from the following activities has been included in turnover:

|                                        | Group          |                |
|----------------------------------------|----------------|----------------|
|                                        | 2003           | 2002           |
|                                        | HK\$'000       | HK\$'000       |
| Sale of properties                     | 98,633         | 5,661          |
| Property rentals                       | 390,232        | 415,479        |
| Hotel, restaurant and other operations | 417,725        | 513,580        |
|                                        | <u>906,590</u> | <u>934,720</u> |

# Notes to Financial Statements

31st July, 2003

## 8. PROFIT FROM OPERATING ACTIVITIES

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

|                                                                                  | Notes | Group            |                  |
|----------------------------------------------------------------------------------|-------|------------------|------------------|
|                                                                                  |       | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Auditors' remuneration                                                           |       | 2,178            | 2,190            |
| Depreciation                                                                     | 15    | 30,119           | 30,604           |
| Staff costs:                                                                     |       |                  |                  |
| Wages and salaries (including directors' remuneration — note 11)                 |       | 216,189          | 232,021          |
| Pension scheme contributions (defined contribution schemes)                      |       | 8,675            | 6,616            |
| Less: Forfeited contributions                                                    |       | (38)             | (176)            |
| Net pension scheme contributions*                                                |       | 8,637            | 6,440            |
| Pension scheme cost (defined benefit schemes)#                                   |       | (569)            | 1,806            |
|                                                                                  |       | <u>224,257</u>   | <u>240,267</u>   |
| (Gain)/loss on disposal of fixed assets                                          |       | (5,886)          | 1,582            |
| Loss on disposal of properties under development                                 |       | 217              | —                |
| Loss on disposal of long term unlisted investments                               |       | —                | 90               |
| Unrealised (gain)/loss of short term investments                                 |       | (438)            | 2,360            |
| Gain on disposal of short term investment                                        |       | (34)             | —                |
| (Write back of)/provisions for contingent losses in respect of profit guarantees |       | (3,963)          | 6,498            |
| Provision for doubtful debts                                                     |       | —                | 4,220            |
| (Recovery of)/write off bad debts                                                |       | (14,045)         | 3,075            |
| Minimum lease payments under operating leases in respect of land and buildings   |       | 5,135            | 51,865           |
| Foreign exchange (gains)/losses, net                                             |       | 118              | (1,285)          |
| Rental income                                                                    |       | (390,232)        | (415,479)        |
| Less: Outgoings                                                                  |       | <u>65,769</u>    | <u>66,293</u>    |
| Net rental income                                                                |       | <u>(324,463)</u> | <u>(349,186)</u> |
| Interest income from bank deposits                                               |       | (1,868)          | (3,810)          |
| Other interest income                                                            |       | (34,580)         | (95,357)         |
| Dividend income from a long term unlisted investment                             |       | (100)            | —                |
| Gain on repurchase of bonds payable                                              |       | (9,041)          | —                |
| Write back of contingent loss in respect of a guarantee given to a bank          |       | —                | (71,720)         |

# Notes to Financial Statements

31st July, 2003

## 8. PROFIT FROM OPERATING ACTIVITIES (continued)

- \* At 31st July, 2003, no forfeited contributions from the Contribution Schemes were available to the Group to reduce its contributions to the Contribution Schemes in future years (2002: Nil).
- # The comparative pension scheme cost amount for the year ended 31st July, 2002 was calculated using the previous accounting policy applied before SSAP 34 was adopted during the current year, and so is not directly comparable with the amount for the current year. The current and previous accounting policies are explained under the heading "Employee benefits: Retirement benefits" in note 4 to the financial statements.

## 9. PENSION SCHEME ASSETS

- (a) SSAP 34 was adopted during the current year, as further explained in note 3 and under the heading "Employee benefits: Retirement benefits" in note 4 to the financial statements. In accordance with the transitional provisions of SSAP 34, the Group's net pension assets of HK\$13,932,000, under SSAP 34, was recognised in the consolidated balance sheet as at 1st August, 2002 (note (b) below), with the corresponding entry being an equivalent credit to accumulated losses at that date, as detailed in the consolidated statement of changes in equity. Under the Group's previous accounting policy for the pension schemes, no amounts were recognised in the consolidated balance sheet.

The net pension scheme cost charged to the consolidated profit and loss account for the year under SSAP 34 amounted to HK\$569,000 (notes (b) and (d) below). Under the previous accounting policy, the profit and loss account charge for the pension schemes comprised the contributions payable to the schemes for the year (note 8).

SSAP 34 does not require the 2002 comparative consolidated balance sheet or consolidated profit and loss account to be restated under the new accounting policy, therefore no comparative amounts for the information are disclosed below.

- (b) The movements in the Group's net pension scheme assets in the balance sheets during the year were as follows:

|                                                                   | Notes | 2003<br>HK\$'000 |
|-------------------------------------------------------------------|-------|------------------|
| At beginning of period:                                           |       |                  |
| As previously reported                                            |       | —                |
| Prior year adjustment                                             |       | 13,932           |
| As restated                                                       |       | 13,932           |
| Acquisition of subsidiaries                                       | 35(b) | 3,701            |
| Contributions paid to the pension scheme                          |       | 96               |
| Net pension scheme cost recognised in the profit and loss account | 8     | 569              |
| At 31st July, 2003                                                | 9(c)  | 18,298           |

# Notes to Financial Statements

31st July, 2003

## 9. PENSION SCHEME ASSETS (continued)

(c) The components of the pension scheme net assets as at the balance sheet date, were as follows:

|                                                                | Note | 2003<br>HK\$'000 |
|----------------------------------------------------------------|------|------------------|
| Present value of defined benefit obligation                    |      | (16,201)         |
| Fair value of scheme assets                                    |      | <u>28,739</u>    |
|                                                                |      | 12,538           |
| Net cumulative actuarial losses remaining in the balance sheet |      | <u>5,760</u>     |
| Net asset recognised                                           | 9(b) | <u>18,298</u>    |

(d) The components of the Group's net pension scheme cost recognised in the consolidated profit and loss account for the year, together with the actual return on the scheme assets for the year, were as follows:

|                                             | Note | 2003<br>HK\$'000 |
|---------------------------------------------|------|------------------|
| Current service cost                        |      | (119)            |
| Interest cost on defined benefit obligation |      | (73)             |
| Expected return on pension scheme assets    |      | <u>761</u>       |
|                                             | 9(b) | <u>569</u>       |
| Actual return on scheme assets              |      | <u>739</u>       |

The above amount of the Group's net pension scheme cost was included in administrative expenses on the face of the consolidated profit and loss account.

(e) The principal actuarial assumptions used in determining the Group's net pension scheme assets as at the balance sheet date, were as follows:

|                                                  | 2003<br>%        |
|--------------------------------------------------|------------------|
| Discount rate                                    | 4.5 — 5.0        |
| Expected rate of return on pension scheme assets | 5.0 — 7.0        |
| Future salary increases                          | <u>3.5 — 5.0</u> |

# Notes to Financial Statements

31st July, 2003

## 9. PENSION SCHEME ASSETS (continued)

- (f) In addition to the above disclosures, the following further information is provided pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The actuarial valuations of the Group's pension schemes as at 31st March, 2003 were performed by Watson Wyatt Hong Kong Limited, a member of the Actuarial Society of Hong Kong, using the valuation method detailed under the heading "Employee benefits: Retirement benefits" in note 4 to the financial statements.

As at 31st March, 2003, the level of funding of one pension scheme was 6.9%, as calculated under the projected unit credit actuarial valuation method used to calculate the amounts disclosed above. For another pension scheme, no funding is required, based on the actuarial estimate, as a material surplus was noted. The actuary has confirmed to the directors that there is no material difference on the assumptions used in the preparation of the above actuarial reports between the date of 31st March, 2003 and 31st July, 2003.

## 10. FINANCE COSTS

|                                                            | Group          |                |
|------------------------------------------------------------|----------------|----------------|
|                                                            | 2003           | 2002           |
|                                                            | HK\$'000       | HK\$'000       |
| Interest on bank and other borrowings                      |                |                |
| wholly repayable within five years                         | 215,357        | 252,541        |
| Interest on amount due to GPEL (note 19)                   | 66,289         | 75,002         |
| Interest on bonds payable                                  | 38,041         | 37,005         |
| Interest on convertible bonds payable                      | 46,922         | 38,505         |
|                                                            | <u>366,609</u> | <u>403,053</u> |
| Total interest expenses                                    | 366,609        | 403,053        |
| Less: Interest capitalised in properties under development | —              | (33,042)       |
|                                                            | <u>366,609</u> | <u>370,011</u> |
| Other finance costs:                                       |                |                |
| Provision for premium on bonds redemption                  | 41,893         | 127,547        |
| Provision for premium on loan repayment                    | 21,042         | 35,000         |
| Bank charges and refinancing charges                       | 43,711         | 35,190         |
|                                                            | <u>473,255</u> | <u>567,748</u> |

# Notes to Financial Statements

31st July, 2003

## 11. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

|                                                             | Group            |                  |
|-------------------------------------------------------------|------------------|------------------|
|                                                             | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Fees                                                        | 260              | 260              |
| Other emoluments:                                           |                  |                  |
| Salaries, allowances and benefits in kind                   | 21,462           | 25,225           |
| Pension scheme contributions (defined contribution schemes) | 319              | 369              |
|                                                             | <u>22,041</u>    | <u>25,854</u>    |

Fees include HK\$260,000 (2002: HK\$260,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

|                                  | Number of directors |           |
|----------------------------------|---------------------|-----------|
|                                  | 2003                | 2002      |
| Nil to HK\$1,000,000             | 7                   | 7         |
| HK\$1,000,001 to HK\$1,500,000   | —                   | 1         |
| HK\$2,000,001 to HK\$2,500,000   | —                   | 1         |
| HK\$3,000,001 to HK\$3,500,000   | 2                   | —         |
| HK\$3,500,001 to HK\$4,000,000   | —                   | 2         |
| HK\$14,000,001 to HK\$14,500,000 | 1                   | —         |
| HK\$14,500,001 to HK\$15,000,000 | —                   | 1         |
|                                  | <u>10</u>           | <u>12</u> |

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

# Notes to Financial Statements

31st July, 2003

## 11. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

### (b) Employees' remuneration

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out in note 11(a) above. Details of the remuneration of the remaining two (2002: one) non-director, highest paid employees are as follows:

|                                                             | Group        |              |
|-------------------------------------------------------------|--------------|--------------|
|                                                             | 2003         | 2002         |
|                                                             | HK\$'000     | HK\$'000     |
| Salaries, allowances and benefits in kind                   | 5,158        | 3,360        |
| Pension scheme contributions (defined contribution schemes) | 258          | 168          |
|                                                             | <u>5,416</u> | <u>3,528</u> |

The remuneration of the highest paid non-director, employees fell within the following bands:

|                                | Number of employees |          |
|--------------------------------|---------------------|----------|
|                                | 2003                | 2002     |
| HK\$2,000,001 to HK\$2,500,000 | 1                   | —        |
| HK\$3,000,001 to HK\$3,500,000 | 1                   | —        |
| HK\$3,500,001 to HK\$4,000,000 | —                   | 1        |
|                                | <u>2</u>            | <u>1</u> |

# Notes to Financial Statements

31st July, 2003

## 12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year.

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

|                                          | Group          |               |
|------------------------------------------|----------------|---------------|
|                                          | 2003           | 2002          |
|                                          | HK\$'000       | HK\$'000      |
| Provision for tax for the year:          |                |               |
| Hong Kong                                | 31,027         | 35,408        |
| Outside Hong Kong                        | 6              | —             |
| Deferred tax (note 32)                   | (380)          | —             |
|                                          | <u>30,653</u>  | <u>35,408</u> |
| Prior year overprovision:                |                |               |
| Hong Kong                                | (541)          | (157)         |
| Share of tax attributable to associates: |                |               |
| Hong Kong                                | (1,596)        | 766           |
| Outside Hong Kong                        | —              | (90)          |
|                                          | <u>(1,596)</u> | <u>676</u>    |
| Tax charge for the year                  | <u>28,516</u>  | <u>35,927</u> |

## 13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31st July, 2003 dealt with in the financial statements of the Company, was HK\$427,490,000 (2002: HK\$2,900,888,000).

## 14. 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\$461,040,000 (2002: HK\$1,941,508,000) and the weighted average number of 3,746,002,000 (2002: 3,746,002,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31st July, 2003 and 2002 have not been disclosed, as the potential ordinary shares of the Group outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

# Notes to Financial Statements

31st July, 2003

## 15. FIXED ASSETS

### Group

|                                             | 1st August,<br>2002<br>HK\$'000 | Additions<br>HK\$'000 | Acquisition<br>of<br>subsidiaries<br>(note 35(b))<br>HK\$'000 | Disposals<br>HK\$'000 | Disposal of<br>subsidiaries<br>(note 35(c))<br>HK\$'000 | Exchange<br>realignments<br>HK\$'000 | 31st July,<br>2003<br>HK\$'000 |
|---------------------------------------------|---------------------------------|-----------------------|---------------------------------------------------------------|-----------------------|---------------------------------------------------------|--------------------------------------|--------------------------------|
| Cost:                                       |                                 |                       |                                                               |                       |                                                         |                                      |                                |
| Hotel properties                            | 1,735,750                       | —                     | 519,262                                                       | —                     | —                                                       | (47)                                 | 2,254,965                      |
| Leasehold land and buildings                | 59,371                          | —                     | —                                                             | (1,886)               | (18,085)                                                | —                                    | 39,400                         |
| Leasehold improvements                      | 38,396                          | 21,112                | —                                                             | (254)                 | (47)                                                    | —                                    | 59,207                         |
| Furniture, fixtures and equipment           | 353,935                         | 10,625                | 35,877                                                        | (18,243)              | (30,683)                                                | (4)                                  | 351,507                        |
| Motor vehicles                              | 25,839                          | 2,876                 | 42                                                            | (3,300)               | (2,724)                                                 | —                                    | 22,733                         |
| Computers                                   | 9,832                           | 933                   | 569                                                           | —                     | —                                                       | —                                    | 11,334                         |
| Motor vessels                               | 32,574                          | 235                   | —                                                             | —                     | —                                                       | —                                    | 32,809                         |
|                                             | <u>2,255,697</u>                | <u>35,781</u>         | <u>555,750</u>                                                | <u>(23,683)</u>       | <u>(51,539)</u>                                         | <u>(51)</u>                          | <u>2,771,955</u>               |
| Accumulated depreciation<br>and impairment: |                                 |                       |                                                               |                       |                                                         |                                      |                                |
| Hotel properties                            | 611,987                         | —                     | —                                                             | —                     | —                                                       | —                                    | 611,987                        |
| Leasehold land and buildings                | 28,114                          | 1,039                 | —                                                             | (443)                 | (17,776)                                                | —                                    | 10,934                         |
| Leasehold improvements                      | 33,461                          | 4,943                 | —                                                             | (7)                   | —                                                       | —                                    | 38,397                         |
| Furniture, fixtures and equipment           | 230,754                         | 19,651                | —                                                             | (17,676)              | (15,067)                                                | —                                    | 217,662                        |
| Motor vehicles                              | 17,407                          | 3,334                 | —                                                             | (3,300)               | (2,302)                                                 | —                                    | 15,139                         |
| Computers                                   | 6,457                           | 1,092                 | —                                                             | —                     | —                                                       | —                                    | 7,549                          |
| Motor vessels                               | 32,574                          | 60                    | —                                                             | —                     | —                                                       | —                                    | 32,634                         |
|                                             | <u>960,754</u>                  | <u>30,119</u>         | <u>—</u>                                                      | <u>(21,426)</u>       | <u>(35,145)</u>                                         | <u>—</u>                             | <u>934,302</u>                 |
| Net book value                              | <u>1,294,943</u>                |                       |                                                               |                       |                                                         |                                      | <u>1,837,653</u>               |

Certain land and buildings, hotel properties and equipments of the Group with carrying amounts of HK\$1,468,393,000 (2002: HK\$930,657,000) were pledged to banks to secure banking facilities granted to the Group.

# Notes to Financial Statements

31st July, 2003

## 15. FIXED ASSETS (continued)

The Group's land and buildings and hotel properties included above are held under the following lease terms:

|                                   |                                 | Hong Kong<br>HK\$'000 | Elsewhere<br>HK\$'000 | Total<br>HK\$'000              |
|-----------------------------------|---------------------------------|-----------------------|-----------------------|--------------------------------|
| <b>At cost:</b>                   |                                 |                       |                       |                                |
| Medium term leases                |                                 | 1,721,425             | 542,187               | 2,263,612                      |
| Long term leases                  |                                 | 30,753                | —                     | 30,753                         |
|                                   |                                 | <u>1,752,178</u>      | <u>542,187</u>        | <u>2,294,365</u>               |
| <b>Company</b>                    |                                 |                       |                       |                                |
|                                   | 1st August,<br>2002<br>HK\$'000 | Additions<br>HK\$'000 | Disposals<br>HK\$'000 | 31st July,<br>2003<br>HK\$'000 |
| <b>Cost:</b>                      |                                 |                       |                       |                                |
| Leasehold land and buildings      | 10,532                          | —                     | (1,885)               | 8,647                          |
| Leasehold improvements            | 17,775                          | 807                   | (255)                 | 18,327                         |
| Furniture, fixtures and equipment | 47,877                          | 591                   | (15,631)              | 32,837                         |
| Motor vehicles                    | 17,205                          | 2,248                 | (2,850)               | 16,603                         |
| Computers                         | 691                             | 20                    | —                     | 711                            |
|                                   | <u>94,080</u>                   | <u>3,666</u>          | <u>(20,621)</u>       | <u>77,125</u>                  |
| <b>Accumulated depreciation:</b>  |                                 |                       |                       |                                |
| Leasehold land and buildings      | 5,013                           | 346                   | (377)                 | 4,982                          |
| Leasehold improvements            | 14,549                          | 1,887                 | (71)                  | 16,365                         |
| Furniture, fixtures and equipment | 43,878                          | 1,319                 | (15,628)              | 29,569                         |
| Motor vehicles                    | 12,013                          | 2,675                 | (2,850)               | 11,838                         |
| Computers                         | 466                             | 125                   | —                     | 591                            |
|                                   | <u>75,919</u>                   | <u>6,352</u>          | <u>(18,926)</u>       | <u>63,345</u>                  |
| Net book value                    | <u>18,161</u>                   |                       |                       | <u>13,780</u>                  |

The Company's leasehold land and buildings are situated in Hong Kong and are held under medium term leases.

In the prior year, certain land and buildings of the Company with carrying amounts of HK\$1,508,000 were pledged to banks to secured banking facilities granted to the Group. Such land and buildings was disposed of during the year.

# Notes to Financial Statements

31st July, 2003

## 16. INVESTMENT PROPERTIES

|                                                        | Group            |                  | Company          |                  |
|--------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                        | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| At beginning of year,<br>at valuation                  | 4,987,860        | 6,224,870        | 2,488,500        | 2,824,000        |
| Additions, at cost                                     | 2,052            | 1,724            | 1,583            | 1,628            |
| Arising on acquisition<br>of subsidiaries (note 35(b)) | 194,250          | —                | —                | —                |
| Arising on disposal<br>of subsidiaries (note 35(c))    | —                | (580,096)        | —                | —                |
| Deficit on revaluation                                 | (680,752)        | (658,638)        | (348,383)        | (337,128)        |
| At end of year, at valuation                           | <u>4,503,410</u> | <u>4,987,860</u> | <u>2,141,700</u> | <u>2,488,500</u> |

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

|                    | Group            |                  | Company          |                  |
|--------------------|------------------|------------------|------------------|------------------|
|                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Long term leases   | 890,000          | 1,037,000        | —                | —                |
| Medium term leases | <u>3,613,410</u> | <u>3,950,860</u> | <u>2,141,700</u> | <u>2,488,500</u> |
|                    | <u>4,503,410</u> | <u>4,987,860</u> | <u>2,141,700</u> | <u>2,488,500</u> |

At 31st July, 2003, the investment properties were revalued by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis.

All investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK\$4,496,700,000 (2002: HK\$4,980,500,000) and HK\$2,141,700,000 (2002: HK\$2,488,500,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

# Notes to Financial Statements

31st July, 2003

## 17. PROPERTIES UNDER DEVELOPMENT

|                                                        | Group            |                  | Company          |                  |
|--------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                        | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| At beginning of year, at cost                          |                  |                  |                  |                  |
| less impairment losses                                 | 116,592          | 160,754          | —                | 19,389           |
| Interest capitalised, net                              | —                | 33,042           | —                | 832              |
| Other additions, at cost                               | 876              | 7,306            | —                | 147              |
| Revenue generated from properties<br>under development | —                | (235)            | —                | (180)            |
| Disposals                                              | (95,517)         | —                | —                | (20,188)         |
| Arising on disposal of<br>a subsidiary (note 35(c))    | (20,551)         | (40,008)         | —                | —                |
| Impairment provided for during<br>the year             | —                | (44,267)         | —                | —                |
|                                                        | <u>1,400</u>     | <u>116,592</u>   | <u>—</u>         | <u>—</u>         |
| At end of year, at cost less<br>impairment losses      |                  |                  |                  |                  |

The properties under development of the Group are held under medium term leases and are situated in Hong Kong.

As at 31st July, 2003, properties under development are stated at cost. In the prior year, properties under development which were carried at net realisable value amounted to HK\$95,000,000.

In the prior year, a property under development of the Group with carrying amount of HK\$75,000,000 was pledged to a bank to secure banking facilities granted to the Group. In the current year, the charge on the property under development was released upon partial repayment of the corresponding banking facilities.

Last year's impairment of properties under development arose from the directors' assessment of the estimated realisable value of the properties with reference to the quotation from an independent third party.

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN SUBSIDIARIES

|                               | Company            |                    |
|-------------------------------|--------------------|--------------------|
|                               | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
| Unlisted shares, at cost      | 1,850,772          | 1,174,064          |
| Amounts due from subsidiaries | 5,470,154          | 5,288,338          |
| Amounts due to subsidiaries   | <u>(5,379,592)</u> | <u>(4,175,158)</u> |
|                               | 1,941,334          | 2,287,244          |
| Provision for impairment      | <u>(3,184,886)</u> | <u>(3,676,085)</u> |
|                               | <u>(1,243,552)</u> | <u>(1,388,841)</u> |

Particulars of the principal subsidiaries are as follows:

| Name                                                       | Place of<br>incorporation/<br>and<br>operations | Nominal<br>value of<br>issued/<br>registered<br>capital | Class of<br>shares<br>held | Percentage of<br>equity interest<br>attributable<br>to the Company |          | Principal<br>activities               |
|------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|----------------------------|--------------------------------------------------------------------|----------|---------------------------------------|
|                                                            |                                                 |                                                         |                            | Direct                                                             | Indirect |                                       |
| Chains Caravelle<br>Hotel Joint Venture<br>Company Limited | Vietnam                                         | US\$16,326,000                                          | *                          | —                                                                  | 26.01    | Hotel<br>operations                   |
| Diamond String<br>Limited                                  | Hong Kong                                       | HK\$10,000                                              | Ordinary                   | —                                                                  | 65.00    | Hotel and<br>restaurant<br>operations |
| Fordspace Development<br>Limited                           | Hong Kong                                       | HK\$2                                                   | Ordinary                   | 100.00                                                             | —        | Investment<br>holding                 |
| Fortune Sign<br>Venture Inc.                               | British Virgin<br>Islands/<br>Hong Kong         | US\$10                                                  | Ordinary                   | 100.00                                                             | —        | Investment<br>holding                 |
| Furama Hotel<br>Enterprises Limited                        | Hong Kong                                       | HK\$102,880,454                                         | Ordinary                   | —                                                                  | 100.00   | Investment<br>holding                 |

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

| Name                                                   | Place of incorporation/<br>registration<br>and<br>operations | Nominal<br>value of<br>issued/<br>registered<br>capital | Class of<br>shares<br>held | Percentage of<br>equity interest<br>attributable<br>to the Company |          | Principal<br>activities                    |
|--------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------|----------------------------|--------------------------------------------------------------------|----------|--------------------------------------------|
|                                                        |                                                              |                                                         |                            | Direct                                                             | Indirect |                                            |
| Gilroy Company Limited                                 | Hong Kong                                                    | HK\$10,000                                              | Ordinary                   | 100.00                                                             | —        | Property investment                        |
| Indochina Beach Hotel Joint Venture                    | Vietnam                                                      | US\$10,800,000                                          | *                          | —                                                                  | 62.63    | Hotel operations                           |
| Infoway Limited                                        | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | 100.00                                                             | —        | Investment holding                         |
| Kolot Property Services Limited                        | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | 100.00                                                             | —        | Property management                        |
| Lai Sun International Finance (Cayman Islands) Limited | Cayman Islands/<br>Hong Kong                                 | US\$2                                                   | Ordinary                   | 100.00                                                             | —        | Bond issue                                 |
| Lai Sun International Finance (1997) Limited           | Cayman Islands/<br>Hong Kong                                 | US\$2                                                   | Ordinary                   | 100.00                                                             | —        | Bond issue                                 |
| Lai Sun Real Estate Agency Limited                     | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | 100.00                                                             | —        | Property management and real estate agency |
| Linkbest Development Limited                           | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | 100.00                                                             | —        | Property development                       |
| Lucky Strike Investment Limited                        | Hong Kong                                                    | HK\$10,000                                              | Ordinary                   | 100.00                                                             | —        | Property investment                        |
| Majestic Hotel Enterprises Limited                     | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | —                                                                  | 100.00   | Hotel and restaurant operations            |

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

| Name                                      | Place of incorporation/<br>registration<br>and<br>operations | Nominal<br>value of<br>issued/<br>registered<br>capital | Class of<br>shares<br>held | Percentage of<br>equity interest<br>attributable<br>to the Company |          | Principal<br>activities |
|-------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------|----------------------------|--------------------------------------------------------------------|----------|-------------------------|
|                                           |                                                              |                                                         |                            | Direct                                                             | Indirect |                         |
| Majestic Centre Limited                   | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | —                                                                  | 100.00   | Property investment     |
| Peakflow Profits Limited                  | British Virgin Islands/<br>Hong Kong                         | US\$1                                                   | Ordinary                   | 100.00                                                             | —        | Investment holding      |
| Transformation International Limited      | British Virgin Islands/<br>Hong Kong                         | US\$1                                                   | Ordinary                   | 100.00                                                             | —        | Investment holding      |
| Vutana Trading Investment (No. 2) Limited | British Virgin Islands/<br>Hong Kong                         | US\$1                                                   | Ordinary                   | —                                                                  | 100.00   | Investment holding      |
| Winpower Holdings Limited                 | Hong Kong                                                    | HK\$2                                                   | Ordinary                   | —                                                                  | 100.00   | Property development    |

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The Group's entire equity interest in Peakflow Profits Limited ("Peakflow") was pledged to Grand Design Development Limited ("Grand Design"), to secure a loan facility granted to the Group. Shares of certain other subsidiaries held by the Group were also pledged to banks to secure banking facilities granted to the Group.

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN SUBSIDIARIES (continued)

On 24th June, 2003, Basingstoke International Limited (“Basingstoke”), a wholly-owned subsidiary of the Company, entered into an agreement with Lai Fung Company Limited (“LFC”), a wholly-owned subsidiary of Lai Fung Holdings Limited (“Lai Fung”), pursuant to which Basingstoke agreed to sell and LFC agreed to purchase the entire issued share capital of Preparis Company Limited (“Preparis”), a then wholly-owned subsidiary of Basingstoke, for a total consideration of HK\$2,300,000. The assets of Preparis are the corporate debentures issued by Clearwater Bay Golf & Country Club. The transaction was completed on 25th June, 2003. As Lai Sun Garment International Limited (“LSG”), a substantial shareholder of the Company, held a 42.25% interest in the Company and a 46.04% interest in Lai Fung at the time of the transaction, the transaction constituted a related party and a connected transaction for the Group as defined under SSAP 20 and the Listing Rules, respectively.

On 18th December, 1997, a sale and purchase agreement (the “Majestic Agreement”) was entered into between Furama and certain independent third parties (the “Majestic Purchasers”) pursuant to which Furama agreed to sell the entire issued share capital of Fortune Sign Venture Inc. (“Fortune Sign”), a then wholly-owned subsidiary of Furama, and to assign the shareholder’s loan due from Fortune Sign to the Majestic Purchasers for a total consideration of HK\$2,030 million. The major assets held by Fortune Sign are two properties, namely the Majestic Hotel and the Majestic Centre (collectively the “Majestic Properties”), which are situated in Hong Kong. The transaction was satisfied by cash of HK\$930 million and a note of HK\$1,100 million (the “Note Receivable”) (note 21).

In accordance with the terms of the Majestic Agreement, the Note Receivable was interest-free and secured by a charge over the Majestic Properties.

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Upon the completion of the Majestic Agreement (the “Completion”), Furama entered into an option deed (the “Option Deed”) with the Majestic Purchasers, pursuant to which Furama granted a share put option and a loan put option (together referred to as the “Put Options”) to the Majestic Purchasers to require Furama to repurchase the entire issued share capital of Fortune Sign and the related shareholders’ loan owing from Fortune Sign, respectively, at a total consideration of approximately HK\$1,936 million.

On 18th December, 1998, a supplemental deed was entered into by the Company, Furama and the Majestic Purchasers, pursuant to which the Company agreed to perform all of the obligations of Furama set out in the Option Deed jointly and severally with Furama and to be bound by all of the relevant provisions in the Option Deed.

Each of the Put Options was for a term of approximately three years commencing from the date of the Completion and expiring on 28th February, 2001 (both dates inclusive) (the “Option Period”). On 27th February, 2001, another supplemental deed was entered into by the Company, Furama and the Majestic Purchasers whereby, inter alia, the Option Period was extended to 30th December, 2002 from 28th February, 2001 and the total consideration under the Put Options was adjusted to HK\$1,656 million from the original amount of approximately HK\$1,936 million, in consideration of a payment of a sum of HK\$280 million (“Prepayment”) (note 22) made by Furama to the Majestic Purchasers on 28th February, 2001.

Upon the exercise of the Put Options by the Majestic Purchasers, Furama would be entitled to set off the outstanding principal amount of the Note Receivable against the total consideration payable to the Majestic Purchasers.

On 29th November 2002, the Majestic Purchasers exercised the Put Options. The consideration of HK\$1,656 million was settled by cash of HK\$556 million and the cancellation of the Note Receivable of HK\$1,100 million. On the same date, Fortune Sign became a wholly-owned subsidiary of the Company.

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES

|                                                                 | Group              |                    | Company            |                    |
|-----------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                 | 2003<br>HK\$'000   | 2002<br>HK\$'000   | 2003<br>HK\$'000   | 2002<br>HK\$'000   |
| Shares listed in Hong Kong, at cost                             | —                  | —                  | 1,803,163          | 1,803,163          |
| Unlisted shares, at cost                                        | —                  | —                  | 18,134             | 18,134             |
| Share of net assets                                             | 419,670            | 266,490            | —                  | —                  |
| Goodwill on acquisition, net of<br>amortisation and impairment  | —                  | 296,000            | —                  | —                  |
|                                                                 | <u>419,670</u>     | <u>562,490</u>     | <u>1,821,297</u>   | <u>1,821,297</u>   |
| Amounts due from associates                                     | 836,640            | 2,108,129          | 333,925            | 332,090            |
| Amounts due to associates                                       | <u>(1,503,728)</u> | <u>(1,520,546)</u> | <u>(3)</u>         | <u>(7,582)</u>     |
|                                                                 | (247,418)          | 1,150,073          | 2,155,219          | 2,145,805          |
| Provision for impairment                                        | <u>(286,542)</u>   | <u>(567,738)</u>   | <u>(1,212,126)</u> | <u>(1,173,053)</u> |
|                                                                 | (533,960)          | 582,335            | 943,093            | 972,752            |
| Amount due to an associate<br>classified as a current liability | <u>1,500,040</u>   | <u>1,500,040</u>   | —                  | —                  |
|                                                                 | <u>966,080</u>     | <u>2,082,375</u>   | <u>943,093</u>     | <u>972,752</u>     |
| Market value of listed shares<br>at the balance sheet date      | <u>59,958</u>      | <u>114,205</u>     | <u>53,368</u>      | <u>101,653</u>     |

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment except for last year's amount due from associates of HK\$1,153,485,000 which was interest-bearing at the then prevailing market rates.

The amounts due to associates are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK\$1,500,040,000 due to GPEL as further detailed below.

As at 31st July, 2003, Furama Hotel Enterprises Limited ("Furama"), a wholly-owned subsidiary of the Company, owed a debt of HK\$1,500,040,000 (the "Debt") to GPEL, a wholly-owned subsidiary of eSun. Pursuant to an intercompany debt deed (the "Debt Deed") entered into by the Company, eSun, Furama and GPEL on 30th June, 2000, the Debt bears interest at 5% per annum and the settlement date of the Debt was the earlier of 31st December, 2002, or the day on which the Exchangeable Bonds (note 30) and the Convertible Bonds (note 31) are repaid in full. The Debt was not repaid on 31st December, 2002 and remained outstanding as at 31st July, 2003. Details of the security provided to eSun in respect of the Debt are included in note 30 to the financial statements.

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

Impairment in value of associates arose from the directors' assessment of the estimated realisable value of the property development project carried out by the associates with reference to the then prevailing market conditions.

The amount of the goodwill, capitalised as an asset, arising from the acquisition of interest in an associate is as follows:

|                                          | Group<br>2003<br>HK\$'000 |
|------------------------------------------|---------------------------|
| <hr/>                                    |                           |
| Cost:                                    |                           |
| At beginning of year                     | 530,894                   |
| Disposal of an associate                 | <u>(530,894)</u>          |
| At 31st July, 2003                       | <u>—</u>                  |
| Accumulated amortisation and impairment: |                           |
| At beginning of year                     | 234,894                   |
| Amortisation provided during the year    | 26,545                    |
| Disposal of an associate                 | <u>(261,439)</u>          |
| At 31st July, 2003                       | <u>—</u>                  |
| Net book value:                          |                           |
| At 31st July, 2003                       | <u>—</u>                  |
| At 31st July, 2002                       | <u>296,000</u>            |

Particulars of the principal associates are as follows:

| Name                            | Business structure | Place of incorporation/<br>registration and operations | Class of shares held | Percentage of capital held | Principal activities              |
|---------------------------------|--------------------|--------------------------------------------------------|----------------------|----------------------------|-----------------------------------|
| Bushell Limited                 | Corporate          | Hong Kong                                              | Ordinary             | 50.00                      | Property development              |
| East Asia Entertainment Limited | Corporate          | Hong Kong                                              | Ordinary             | 42.54                      | Entertainment activity production |

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows: (continued)

| Name                                           | Business structure | Place of incorporation/ registration and operations | Class of shares held | Percentage of capital held | Principal activities                                |
|------------------------------------------------|--------------------|-----------------------------------------------------|----------------------|----------------------------|-----------------------------------------------------|
| East Asia Satellite Television Limited         | Corporate          | Hong Kong                                           | Ordinary             | 42.54                      | Programme production, distribution and broadcasting |
| East Asia — Televisão Por Satélite, Limitada # | Corporate          | Macau                                               | Quota                | 42.54                      | Programme production, distribution and broadcasting |
| eSun Holdings Limited                          | Corporate          | Bermuda/<br>Hong Kong                               | Ordinary             | 42.54                      | Investment holding                                  |
| Kippford Enterprises Limited #                 | Corporate          | Hong Kong                                           | Ordinary             | 50.00                      | Property development                                |
| Omicron International Limited                  | Corporate          | British Virgin Islands/<br>Hong Kong                | Ordinary             | 43.50                      | Investment holding                                  |

# Not audited by Ernst & Young Hong Kong or any other Ernst & Young International member firms.

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.

The entire shareholding of an associate held by the Group has been pledged to secure a loan facility granted to the Group.

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

During the year, the Group disposed of certain of its interests in associates as further detailed below:

- (i) On 8th November, 2002, two of the Company's wholly-owned subsidiaries, Fordspace Development Limited ("FDL") and Infoway Limited ("IFL"), the Company and Dragon Goodwill International Limited ("DGI"), owned as to 80% by Mr. Chan Wing Kee, the chief executive officer of Asia Television Limited ("ATV"), entered in to an agreement (the "DGI agreement"). Pursuant to the DGI agreement, the Company agreed to sell and DGI agreed to purchase, for an aggregate consideration of HK\$360,000,000, a 32.75% equity interest in ATV, beneficially owned by FDL and IFL, and the 100% equity interest in Houseman International Limited ("HIL") (as further mentioned below), which owned a 50% equity interest in HKATV.com Limited (the "ATV Transaction"). On the same date, the Company entered into an agreement (the "eSun Agreement") to acquire from eSun the 100% equity interest it held in HIL for a consideration of HK\$46,080,000 (the "HIL Transaction").

On 14th May, 2003, FDL, IFL, the Company and DGI entered into a supplemental agreement pursuant to which the consideration of the ATV Transaction was reduced from HK\$360,000,000 to HK\$230,000,000. On the same date, eSun and the Company entered into a supplemental agreement pursuant to which the consideration of the HIL Transaction was reduced to HK\$33,580,000.

The ATV transaction constituted a major transaction of the Group under the Listing Rules and was approved by the shareholders of the Company at its extraordinary general meeting on 30th June, 2003. Such transaction was also approved by the Exchangeable Bondholders and the Convertible Bondholders at their respective meetings held on 18th July, 2003. The above transactions were completed on 25th July, 2003.

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- (ii) On 21st March, 2003, Peakflow, a wholly-owned subsidiary of the Company, entered into an agreement (the "Bayshore Agreement") with Grand Design, pursuant to which the indebtedness owing by Peakflow to Grand Design was reduced by HK\$463,334,000 (including premium on loan repayment of HK\$46,667,000) after a transfer to Grand Design by the Group of its 20% equity interest in Bayshore Development Group Limited ("Bayshore"), together with an assignment to Grand Design HK\$600,000,000 worth of shareholders' loans plus accrued interest owing by Bayshore to the Group. The major asset of Bayshore is the site at 1 Connaught Road, Central, Hong Kong for which a building is currently under construction. After the completion of the Bayshore Agreement, the Group continues to hold a 10% interest in Bayshore, accordingly the carrying value of the interest and the related amount due by Bayshore to the Group are reclassified and included in the Group's balance sheet as a long term investment.

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

Included in the Group's share of net assets of associates is the share of net assets of eSun which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the consolidated net assets of eSun and its subsidiaries (collectively the "eSun Group") are set out below:

### eSun Group\*

|                                                                                                                  | As at<br>30th June, 2003<br>HK\$'000            |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| <hr/>                                                                                                            |                                                 |
| Non-current assets                                                                                               | 1,867,712                                       |
| Current assets                                                                                                   | 66,934                                          |
| Current liabilities                                                                                              | (109,561)                                       |
| Non-current liabilities                                                                                          | (60)                                            |
| Minority interests                                                                                               | (206)                                           |
|                                                                                                                  | <u>1,824,819</u>                                |
| Contingent liabilities                                                                                           |                                                 |
| Guarantees given to the Company in connection with<br>the disposal of an associate to the Company in prior years | <u>25,000</u>                                   |
|                                                                                                                  | Six months ended<br>30th June, 2003<br>HK\$'000 |
| <hr/>                                                                                                            |                                                 |
| Turnover                                                                                                         | <u>49,755</u>                                   |
| Loss before tax                                                                                                  | (46,713)                                        |
| Tax                                                                                                              | <u>(8)</u>                                      |
| Net loss from ordinary activities attributable to shareholders                                                   | <u>(46,721)</u>                                 |

\* Since eSun's financial year end date is 31st December, the above amounts have been extracted from the published unaudited interim report of eSun for the six months ended 30th June, 2003.

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

Included in the Group's interests in associates as at 31st July, 2003 is the Group's share of net assets of the eSun Group of HK\$805,452,000.

As at 30th June, 2003, the Debt plus any accrued interest due by the Group to the eSun Group remained outstanding and overdue. The directors of the Company are of the opinion that pending the outcome of the Debt Restructuring Plan of the Group as further explained in note 2 to the financial statements, at this stage it is uncertain as to the extent of the possible recovery by the eSun Group in respect of the Debt.

As at 30th June, 2003, the film rights held by the eSun Group amounted to HK\$112,952,000 which represented all rights, titles and interests in 96 films (the "96 Film Rights") valued at HK\$93,449,000 and the television rights to another 20 films for a period of 10.5 years (the "20 Film Rights") valued at HK\$19,503,000. The directors of eSun had engaged an independent third party (the "Valuer") to perform a valuation (the "Valuation") on the 96 Film Rights as at 31st December, 2002. Having regard to the Valuation, which reported that the fair value of the 96 Film Rights as at 31st December, 2002 was above their costs as stated in the eSun Group's consolidated financial statements and having regard to the current market conditions, the directors of eSun are of the opinion that there is no impairment in the film rights held by the eSun Group as at 30th June, 2003.

The auditors of eSun issued a disclaimer opinion on the financial statements of the eSun Group for the year ended 31st December, 2002. In their report, the auditors stated that (i) they were unable to obtain sufficient reliable information to satisfy themselves as to the recoverability of the Debt and (ii) they had been unable to carry out the auditing procedures required by the Statement of Auditing Standards 520 "Using the Work of an Expert", to satisfy themselves as to (i) the competence and objectivity of the Valuer; and (ii) the adequacy of the scope of the Valuer's work, with regard to the 96 Film Rights. The auditors also stated that they had been unable to obtain sufficient reliable information or carry out alternative auditing procedures to satisfy themselves as to the assessment made by eSun's directors, in connection with the carrying amount of the 20 Film Rights.

# Notes to Financial Statements

31st July, 2003

## 20. LONG TERM INVESTMENTS

|                                      | Group            |                  | Company          |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted equity investments, at cost | 174,565          | 177,110          | 8,101            | 8,101            |
| Advances to investees                | 590,765          | 291,305          | 244,618          | 290,021          |
|                                      | 765,330          | 468,415          | 252,719          | 298,122          |
| Provision for impairment             | (407,539)        | (294,884)        | (151,000)        | (148,000)        |
|                                      | 357,791          | 173,531          | 101,719          | 150,122          |

Impairment of long term unlisted investments arose from the directors' assessment of the estimated realisable value of the property development projects carried out by the investees with reference to the prevailing market conditions.

The entire shareholdings of and advances to Bayshore, with an aggregate carrying value of HK\$235,208,000, have been pledged to Grand Design to secure a loan facility granted to the Group.

## 21. LONG TERM NOTE RECEIVABLE

|                          | Group            |                  |
|--------------------------|------------------|------------------|
|                          | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Note receivable          | —                | 1,100,000        |
| Provision for impairment | —                | (1,100,000)      |
|                          | —                | —                |

The Note Receivable represented the sales proceeds receivable from the disposal of Fortune Sign. Provision for impairment of the full amount had been made in the prior year. During the year, the Note Receivable was applied by the Group to offset the consideration payable for the re-purchase of Fortune Sign upon the exercise of the Put Options by the Majestic Purchasers as further detailed in note 18 to the financial statements.

# Notes to Financial Statements

31st July, 2003

## 22. LONG TERM PREPAYMENT

|                          | Group            |                  |
|--------------------------|------------------|------------------|
|                          | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Prepayment               | —                | 280,000          |
| Provision for impairment | —                | (86,000)         |
|                          | <u>—</u>         | <u>194,000</u>   |

The carrying value of Prepayment was treated as part of the investment cost in Fortune Sign upon the exercise of the Put Options by the Majestic Purchasers as detailed in notes 18 and 35(b) to the financial statements.

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS

|                                                             | Group            |                  | Company          |                  |
|-------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                             | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Cash and bank balances                                      | 113,459          | 68,236           | 66,769           | 13,454           |
| Time deposits                                               | <u>117,858</u>   | <u>263,208</u>   | <u>78,797</u>    | <u>191,449</u>   |
|                                                             | 231,317          | 331,444          | 145,566          | 204,903          |
| Less amounts pledged for<br>long term bank loan:            |                  |                  |                  |                  |
| Cash and bank balances                                      | —                | (3,778)          | —                | (3,778)          |
| Time deposits                                               | <u>—</u>         | <u>(66,275)</u>  | <u>—</u>         | <u>(66,275)</u>  |
|                                                             | <u>—</u>         | <u>(70,053)</u>  | <u>—</u>         | <u>(70,053)</u>  |
| Less amounts pledged for bank loans<br>due within one year: |                  |                  |                  |                  |
| Cash and bank balances                                      | (38,594)         | (407)            | (38,594)         | (407)            |
| Time deposits                                               | <u>(81,796)</u>  | <u>(22,600)</u>  | <u>(78,797)</u>  | <u>(22,600)</u>  |
|                                                             | <u>(120,390)</u> | <u>(23,007)</u>  | <u>(117,391)</u> | <u>(23,007)</u>  |
| Cash and cash equivalents                                   | <u>110,927</u>   | <u>238,384</u>   | <u>28,175</u>    | <u>111,843</u>   |

# Notes to Financial Statements

31st July, 2003

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS (continued)

Pledged bank balances and time deposits were pledged to banks to secure banking facilities granted to the Group and an investee company.

At the balance sheet date, the cash and bank balances of the Group denominated in Vietnamese Dong (“VND”) amounted to HK\$2,750,000 (2002:HK\$7,883,000). The VND is not freely convertible into other currencies. However, under the Regulations on Foreign Exchange Control of the Socialist Republic of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

## 24. SHORT TERM INVESTMENTS

|                                                         | Group        |              |
|---------------------------------------------------------|--------------|--------------|
|                                                         | 2003         | 2002         |
|                                                         | HK\$'000     | HK\$'000     |
| Equity investments listed in Hong Kong, at market value | 649          | 231          |
| Unlisted equity investments, at fair value              | <u>6,721</u> | <u>6,722</u> |
|                                                         | <u>7,370</u> | <u>6,953</u> |

## 25. COMPLETED PROPERTIES FOR SALE

The completed properties for sale are carried at net realisable value as at the balance sheet date.

Certain completed properties for sale of the Group with carrying amount of HK\$5,126,500 (2002: HK\$8,195,500) were employed to generate operating lease rental income for the Group, further summary details of which are included in note 38(a) to the financial statements.

# Notes to Financial Statements

31st July, 2003

## 26. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

(a) The Group maintains various credit policies for different business operations in accordance with the business practice and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from sale of properties are settled in accordance with the terms of respective contracts. Rent and related charges in respect of the leasing of properties are payable by tenants in accordance with the terms of the tenancy agreements and are normally payable in advance. Hotel and restaurant charges are mainly settled by customers on a cash basis except for those corporate clients who are maintaining credit accounts with the respective subsidiaries, settlement of which is in accordance with the respective agreements.

An aged analysis of the trade debtors at the balance sheet date is as follows:

|                            | Group            |                  |
|----------------------------|------------------|------------------|
|                            | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Trade debtors:             |                  |                  |
| Less than 30 days          | 27,314           | 26,958           |
| 31 — 60 days               | 6,335            | 4,131            |
| 61 — 90 days               | 3,639            | 1,318            |
| Over 90 days               | 9,515            | 1,951            |
|                            | 46,803           | 34,358           |
| Other debtors and deposits | 88,382           | 73,758           |
|                            | 135,185          | 108,116          |

(b) An aged analysis of the trade creditors at the balance sheet date is as follows:

|                                                 | Group            |                  |
|-------------------------------------------------|------------------|------------------|
|                                                 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Trade creditors:                                |                  |                  |
| Less than 30 days                               | 15,209           | 14,850           |
| 31 — 60 days                                    | 3,695            | 1,366            |
| 61 — 90 days                                    | 28               | 696              |
| Over 90 days                                    | 316              | 324              |
|                                                 | 19,248           | 17,236           |
| Other creditors, deposits received and accruals | 289,423          | 214,995          |
|                                                 | 308,671          | 232,231          |

# Notes to Financial Statements

31st July, 2003

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

|                                           | Group              |                    | Company            |                  |
|-------------------------------------------|--------------------|--------------------|--------------------|------------------|
|                                           | 2003<br>HK\$'000   | 2002<br>HK\$'000   | 2003<br>HK\$'000   | 2002<br>HK\$'000 |
| Bank loans, secured                       | 3,725,699          | 3,279,917          | 1,858,700          | 1,422,000        |
| Other loans, secured                      | <u>231,133</u>     | <u>658,400</u>     | <u>22,800</u>      | <u>33,400</u>    |
|                                           | <u>3,956,832</u>   | <u>3,938,317</u>   | <u>1,881,500</u>   | <u>1,455,400</u> |
| Bank loans repayable:                     |                    |                    |                    |                  |
| Within one year                           | 3,725,699          | 2,411,917          | 1,858,700          | 554,000          |
| In the second year                        | —                  | 63,500             | —                  | 63,500           |
| In the third to fifth years, inclusive    | <u>—</u>           | <u>804,500</u>     | <u>—</u>           | <u>804,500</u>   |
|                                           | <u>3,725,699</u>   | <u>3,279,917</u>   | <u>1,858,700</u>   | <u>1,422,000</u> |
| Other loans repayable:                    |                    |                    |                    |                  |
| Within one year                           | 231,133            | 33,400             | 22,800             | 33,400           |
| In the second year                        | —                  | —                  | —                  | —                |
| In the third to fifth years, inclusive    | <u>—</u>           | <u>625,000</u>     | <u>—</u>           | <u>—</u>         |
|                                           | <u>231,133</u>     | <u>658,400</u>     | <u>22,800</u>      | <u>33,400</u>    |
| Total bank and other borrowings           | 3,956,832          | 3,938,317          | 1,881,500          | 1,455,400        |
| Portion classified as current liabilities | <u>(3,956,832)</u> | <u>(2,445,317)</u> | <u>(1,881,500)</u> | <u>(587,400)</u> |
| Long term portion                         | <u>—</u>           | <u>1,493,000</u>   | <u>—</u>           | <u>868,000</u>   |

The secured bank loans are secured by fixed charges over certain properties and floating charges over certain assets held by the Group.

HK\$208,333,000 (2002: HK\$625,000,000) of the secured other loans bears interest at a fixed rate per annum and is repayable in full on 20th February, 2005 in accordance with the terms of the loan agreement. The remaining amount of HK\$22,800,000 (2002: HK\$33,400,000) in secured other loans bears interest at a fixed rate per month and is due for repayment on 31st December, 2002 and remained outstanding as at 31st July, 2003.

As detailed in note 2 to the financial statements, the Group had already defaulted in repayment of the Debt due to the eSun Group, the Exchangeable Bonds and Convertible Bonds. Such defaults had caused cross-default under the terms of the Group's banking and other loan facilities. Accordingly, the Group's bank loans of HK\$784,500,000 and other loans of HK\$208,333,000 together with the corresponding provision for premium on loan repayment of HK\$26,875,000 (note 29) which had an original maturity term of beyond one year are now classified as current liabilities.

# Notes to Financial Statements

31st July, 2003

## 28. PROVISION FOR PREMIUM ON BONDS REDEMPTION

|                                           | Group<br>and<br>Company<br>HK\$'000 |
|-------------------------------------------|-------------------------------------|
| At 1st August, 2002                       | 600,692                             |
| Provided during the year                  | 41,893                              |
| Repurchased and cancelled during the year | <u>(30,195)</u>                     |
| At 31st July, 2003                        | <u>612,390</u>                      |

## 29. PROVISION FOR PREMIUM ON LOAN REPAYMENT

|                          | Group<br>HK\$'000 |
|--------------------------|-------------------|
| At 1st August, 2002      | 52,500            |
| Provided during the year | 21,042            |
| Repaid during the year   | <u>(46,667)</u>   |
| At 31st July, 2003       | <u>26,875</u>     |

For reason as detailed in note 27 to the financial statements, the amount has been classified as current liabilities as at 31st July, 2003.

## 30. BONDS PAYABLE

|                           | Group          |                |
|---------------------------|----------------|----------------|
|                           | 2003           | 2002           |
|                           | HK\$'000       | HK\$'000       |
| At beginning of year      | 740,025        | 740,053        |
| Repurchased and cancelled | (77,220)       | —              |
| Repaid during the year    | (41,134)       | —              |
| Exchange realignment      | <u>—</u>       | <u>(28)</u>    |
| At end of year            | <u>621,671</u> | <u>740,025</u> |

US\$115,000,000 exchangeable bonds (the "Exchangeable Bonds") were issued on 28th February, 1997 by a wholly-owned subsidiary of the Company, Lai Sun International Finance (Cayman Islands) Limited (the "Issuer") pursuant to a trust deed dated 28th February, 1997 (the "EB Trust Deed") entered into between the Company, the Issuer and DB Trustees (Hong Kong) Limited (then known as BT Trustees (Hong Kong) Limited) (the "Trustee"). The Exchangeable Bonds are unconditionally and irrevocably guaranteed by the Company. The Exchangeable Bonds initially bore interest on the principal amount outstanding at the rate of 5% per annum.

# Notes to Financial Statements

31st July, 2003

## 30. BONDS PAYABLE (continued)

Pursuant to a supplemental trust deed entered into between the Company, the Issuer and the Trustee on 19th January, 2001, unless previously redeemed, purchased and cancelled or exchanged, the Exchangeable Bonds were to be redeemed at 151.4439% of their principal amount (the "Maturity Redemption Price") on 28th February, 2004. The Exchangeable Bonds were redeemable at the option of the holders of Exchangeable Bonds (the "Exchangeable Bondholders") on 31st December, 2002 (the "Optional Redemption Date") at 139.1033% of their principal amount. In addition, the Exchangeable Bonds were redeemable at any time during the period from 28th February, 1997 to 28th February, 2004 upon the occurrence of any of the certain other events as defined in the related bond document at various pre-determined prices ranging from 100% of the principal amount to the Maturity Redemption Price.

Pursuant to an extraordinary resolution passed on 17th December, 2002, the Exchangeable Bonds were amended, as reflected by the terms of a second supplemental trust deed entered into between the Company, the Issuer and the Trustee on 21st January, 2003. The Exchangeable Bonds ceased to accrue any further redemption premium with effect from 31st December, 2002. The Exchangeable Bonds were to bear interest at the rate of 4% per annum on an aggregate amount of the principal and accrued redemption premium with effect from 31st December, 2002. The Maturity Redemption Price was amended from 151.4439% to 139.1033% of the principal amount outstanding, and the Optional Redemption Date was extended from 31st December, 2002 to 31st March, 2003.

As detailed in note 2 to the financial statements, the date of unconditional redemption at the option of the Exchangeable Bondholders was deferred to 31st March, 2003 but the Exchangeable Bonds have not been redeemed up to the current date. On 24th April, 2003, the Group, through its wholly-owned subsidiary, repurchased part of the Exchangeable Bonds with US\$9,900,000 in principal and together with the related premium and interest of US\$4,030,000 from a bank for a consideration of US\$12,771,000. The repurchased bonds were then cancelled pursuant to the terms and conditions of the bond document. On 18th July, 2003, extraordinary resolutions were passed by the Exchangeable Bondholders approving the ATV transaction (note 19), the release of the ATV Shares from the security created by the mortgage of shares and security trust deed dated 19th January, 2001 between, inter alios, the Company and the Trustee in favour of the Exchangeable Bondholders and the consequent modification to the terms and conditions of the Exchangeable Bonds so that the Exchangeable Bondholders' right to exchange their respective Exchangeable Bonds into shares in ATV under the terms and conditions shall have been irrevocably withdrawn and removed and the Company shall cease to be under any obligations under the Exchangeable Bonds in respect of the exercise of such right. On 25th July, 2003, the ATV transaction (note 19) completed and an aggregate amount of US\$5,273,600 was repaid to the Exchangeable Bondholders on 30th July, 2003 in part payment of the aggregate amount outstanding on the Exchangeable Bonds. As a result of such partial repayment of the outstanding principal of the Exchangeable Bonds, the Maturity Redemption Price for the Exchangeable Bonds was further amended to 141.6906% of the principal amount outstanding in respect of such bonds.

As at 31st July, 2003, the Exchangeable Bondholders still share:

- (1) on a pari passu and pro rata basis, with the Convertible Bondholders (as defined in note 31) the security of a second charge over 285,512,791 shares of HK\$0.50 each in the issued share capital of eSun beneficially owned by the Company; and

# Notes to Financial Statements

31st July, 2003

## 30. BONDS PAYABLE (continued)

- (2) on a pari passu and pro rata basis, with the Convertible Bondholders and eSun of a limited recourse second charge over 6,500 shares of HK\$1.00 each in the issued share capital of Diamond String Limited (which owns The Ritz-Carlton Hong Kong) beneficially owned by the Company.

## 31. CONVERTIBLE BONDS PAYABLE

|                        | Group          |                |
|------------------------|----------------|----------------|
|                        | 2003           | 2002           |
|                        | HK\$'000       | HK\$'000       |
| At beginning of year   | 965,250        | 965,287        |
| Repaid during the year | (58,500)       | —              |
| Exchange realignment   | —              | (37)           |
| At end of year         | <u>906,750</u> | <u>965,250</u> |

US\$150,000,000 4% convertible guaranteed bonds due in 2002 (the “Convertible Bonds”) were issued on 4th August, 1997 by Lai Sun International Finance (1997) Limited (“LSIF 1997”), a wholly-owned subsidiary of the Company pursuant to a trust deed dated 4th August, 1997 entered into between the Company, LSIF 1997 and The Law Debenture Trust Corporation p.l.c. (the “CB Trustee”) with interest at a rate of 4% per annum on their principal amount. The Convertible Bonds are unconditionally and irrevocably guaranteed by the Company.

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Pursuant to the initial bond document of the Convertible Bonds entered into on 4th August, 1997 (the “CB Document”), unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds are convertible into fully paid ordinary shares of HK\$0.50 each in the Company at the option of the holders of Convertible Bonds (the “Convertible Bondholders”) at an original conversion price of HK\$11.50 per share at a fixed exchange rate of HK\$7.80 = US\$1.00 on conversion, at any time from 4th September, 1997 to 24th June, 2002 (the “Maturity Date”), both dates inclusive. Pursuant to a third supplemental trust deed dated 19th January, 2001, the Maturity Date was extended to 31st December, 2002 and the conversion price was amended to HK\$1.10 per share. The conversion price is subject to adjustments upon the occurrence of certain events as detailed in the CB Document. Unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds were redeemable at 136.5927% of their outstanding principal amount (the “Maturity Redemption Price”) plus interest accrued at the Maturity Date.

Pursuant to an extraordinary resolution passed on 19th December, 2002, the Convertible Bonds were amended, as reflected by the terms of a fourth supplemental trust deed entered into between the Company, the Issuer and the CB Trustee on 21st January, 2003. The Convertible Bonds ceased to accrue any further redemption premium with effect from 31st December, 2002. The Convertible Bonds were to bear interest at a rate of 4% per annum on an aggregate amount of the principal and accrued redemption premium with effect from 31st December, 2002. The Maturity Date was further extended from 31st December, 2002 to 31st March, 2003.

# Notes to Financial Statements

31st July, 2003

## 31. CONVERTIBLE BONDS PAYABLE (continued)

As detailed in note 2 to the financial statements, the Convertible Bonds were due for redemption on 31st March, 2003 but were not so redeemed up to the current date. On 18th July, 2003, extraordinary resolutions were passed by the Convertible Bondholders approving the ATV transaction (note 19) and the release of the ATV Shares from the security created by the mortgage of shares and security trust deed dated 19th January, 2001 between, inter alios, the Company and the CB Trustee in favour of the Convertible Bondholders. On 25th July, 2003, completion of the ATV Transaction (note 19) took place and an aggregate amount of US\$7,500,000 was repaid to the Convertible Bondholders as soon as practicable thereafter in part payment of the aggregate amount outstanding on the Convertible Bonds. As a result of such partial repayment of the outstanding principal, the Maturity Redemption Price of the Convertible Bonds was further amended to 138.9535% of each Convertible Bond's outstanding principal amount as at 31st July, 2003.

As at 31st July, 2003, the Convertible Bondholders still share, on a *pari passu* and *pro rata* basis, with the Exchangeable Bondholders, the security as described in note 30(1) and share with the Exchangeable Bondholders and eSun, on a *pari passu* and *pro rata* basis, the security as described in note 30(2).

## 32. DEFERRED TAX

|                                                     | Group            |                  |
|-----------------------------------------------------|------------------|------------------|
|                                                     | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| At beginning of year                                | (380)            | (380)            |
| Arising on acquisition of subsidiaries (note 35(b)) | (5,065)          | —                |
| Write back for the year (note 12)                   | 380              | —                |
| At end of year                                      | <u>(5,065)</u>   | <u>(380)</u>     |

The principal components of the deferred tax assets/(liabilities) are as follows:

| Group                                                        | Provided         |                  | Not provided     |                  |
|--------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                              | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Decelerated/(accelerated) capital allowances on fixed assets | (5,065)          | (380)            | 5                | 2,209            |
| Tax losses                                                   | —                | —                | 9,485            | 14,810           |
|                                                              | <u>(5,065)</u>   | <u>(380)</u>     | <u>9,490</u>     | <u>17,019</u>    |

The revaluation of the Group's investment properties in Hong Kong does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company had no significant potential deferred tax liabilities for which provision has not been made.

# Notes to Financial Statements

31st July, 2003

## 33. SHARE CAPITAL

|                                    | Number of<br>shares<br>2003<br>'000 | Nominal<br>value<br>2003<br>HK\$'000 | Number of<br>shares<br>2002<br>'000 | Nominal<br>value<br>2002<br>HK\$'000 |
|------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| Authorised:                        |                                     |                                      |                                     |                                      |
| Ordinary shares of HK\$0.50 each   | <u>10,000,000</u>                   | 5,000,000                            | <u>10,000,000</u>                   | 5,000,000                            |
| Preference shares of HK\$1.00 each | <u>1,200,000</u>                    | <u>1,200,000</u>                     | <u>1,200,000</u>                    | <u>1,200,000</u>                     |
|                                    |                                     | <u>6,200,000</u>                     |                                     | <u>6,200,000</u>                     |
| Issued and fully paid:             |                                     |                                      |                                     |                                      |
| Ordinary shares of HK\$0.50 each   | <u>3,746,002</u>                    | <u>1,873,001</u>                     | <u>3,746,002</u>                    | <u>1,873,001</u>                     |

## 34. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 40 to 41 of the financial statements.

Amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated reserves.

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31st July, 2003, arising from the acquisition of subsidiaries prior to 1st August, 2001, are as follows:

|                                             | Goodwill<br>eliminated<br>against<br>capital reserve<br>HK\$'000 | Goodwill<br>eliminated<br>against<br>accumulated<br>losses<br>HK\$'000 | Negative<br>goodwill<br>credited to<br>accumulated<br>losses<br>HK\$'000 |
|---------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Cost:                                       |                                                                  |                                                                        |                                                                          |
| At beginning of year and at 31st July, 2003 | 62,619                                                           | 32,270                                                                 | (149,983)                                                                |
| Accumulated impairment:                     |                                                                  |                                                                        |                                                                          |
| At beginning of year and at 31st July, 2003 | <u>(62,619)</u>                                                  | <u>—</u>                                                               | <u>—</u>                                                                 |
| Net amount:                                 |                                                                  |                                                                        |                                                                          |
| At 31st July, 2003                          | <u>—</u>                                                         | <u>32,270</u>                                                          | <u>(149,983)</u>                                                         |
| At 31st July, 2002                          | <u>—</u>                                                         | <u>32,270</u>                                                          | <u>(149,983)</u>                                                         |

# Notes to Financial Statements

31st July, 2003

## 34. RESERVES (continued)

### (b) Company

|                                                          | Share<br>premium<br>account<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000  |
|----------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------|----------------------------------------------|-----------------------------------|--------------------|
| At 1st August, 2001                                      | 5,858,164                               | 1,966,703                                                    | 1,200,000                                    | (7,396,812)                       | 1,628,055          |
| Deficit on<br>revaluation of<br>investment<br>properties | —                                       | (337,128)                                                    | —                                            | —                                 | (337,128)          |
| Net loss for the year                                    | <u>—</u>                                | <u>—</u>                                                     | <u>—</u>                                     | <u>(2,900,888)</u>                | <u>(2,900,888)</u> |
| At 31st July, 2002 and<br>1st August, 2002               | 5,858,164                               | 1,629,575                                                    | 1,200,000                                    | (10,297,700)                      | (1,609,961)        |
| Deficit on<br>revaluation of<br>investment<br>properties | —                                       | (348,383)                                                    | —                                            | —                                 | (348,383)          |
| Net loss for the year                                    | <u>—</u>                                | <u>—</u>                                                     | <u>—</u>                                     | <u>(427,490)</u>                  | <u>(427,490)</u>   |
| At 31st July, 2003                                       | <u>5,858,164</u>                        | <u>1,281,192</u>                                             | <u>1,200,000</u>                             | <u>(10,725,190)</u>               | <u>(2,385,834)</u> |

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transactions

During the year, the Group had the following major non-cash transactions.

- (i) As detailed in note 19 to the financial statements, the reduction of indebtedness owing to Grand Design of HK\$463,334,000 was settled by means of a transfer of a 20% interest in Bayshore and the assignment of shareholders' loans plus accrued interest, and therefore had no effects on the Group's cash flows.
- (ii) As detailed in note 18 to the financial statements, the consideration for the acquisition of Fortune Sign was partly set off by the Note Receivable (note 21), and therefore had no effect on the Group's cash flows.

# Notes to Financial Statements

31st July, 2003

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

In the prior year, the Group had the following major non-cash transaction.

On 7th December, 2001, the Company, LSG and Mr. Lim Por Yen ("Mr. Lim") entered into an agreement pursuant to which:

- (i) the Company agreed to sell, and LSG agreed to purchase, 779,958,912 ordinary shares of Lai Fung (the "Lai Fung Transaction"), which represented approximately 25.40% of the then existing issued share capital of Lai Fung and the Company's then entire shareholding interest in Lai Fung. The consideration of the Lai Fung Transaction was satisfied by the execution and delivery by LSG to the Company, on the completion of the transaction, a loan note in an aggregate principal amount of HK\$225,200,000 (the "LSG Loan Note");
- (ii) Mr. Lim agreed to sell, and LSD agreed to purchase, 125,450,000 ordinary shares in the capital of ATV, which represented approximately 16.08% of the then existing issued share capital of ATV (the "Lim Transaction") for a consideration of HK\$225,200,000; and the Company agreed to assign to Mr. Lim (or his nominee) its rights and benefits in respect of the LSG Loan Note to satisfy the consideration payable by the Company to Mr. Lim in respect of the Lim Transaction (the "Assignment of Debt").

The consideration receivable and payable under the Lai Fung Transaction and the Lim Transaction were settled through the issuance of the LSG Loan Note and the Assignment of Debt, and therefore had no effect on the Group's cash flows.

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### (b) Acquisition of subsidiaries

|                                           | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------------------------|-------|------------------|------------------|
| Net assets acquired:                      |       |                  |                  |
| Fixed assets                              | 15    | 555,750          | —                |
| Investment properties                     | 16    | 194,250          | —                |
| Pension scheme assets                     | 9(b)  | 3,701            | —                |
| Inventories                               |       | 1,106            | —                |
| Debtors and deposits                      |       | 16,590           | —                |
| Cash and bank balances                    |       | 7,927            | —                |
| Creditors, deposits received and accruals |       | (20,673)         | —                |
| Tax payable                               |       | (3,586)          | —                |
| Deferred tax                              | 32    | (5,065)          | —                |
|                                           |       | <u>750,000</u>   | <u>—</u>         |
| Satisfied by:                             |       |                  |                  |
| Cash                                      |       | 556,000          | —                |
| Prepayment (note 22)                      |       | 194,000          | —                |
|                                           |       | <u>750,000</u>   | <u>—</u>         |

# Notes to Financial Statements

31st July, 2003

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

|                                                                                           | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------------------------------------------------------------------------|------------------|------------------|
| Cash consideration                                                                        | 556,000          | —                |
| Cash and bank balances acquired                                                           | (7,927)          | —                |
| Net outflow of cash and cash equivalents<br>in respect of the acquisition of subsidiaries | <u>548,073</u>   | <u>—</u>         |

Since acquisition, the subsidiaries contributed HK\$51,298,000 to the Group's turnover and profit of HK\$10,079,000 to the consolidated loss after tax and before minority interests for the year ended 31st July, 2003.

### (c) Disposal of subsidiaries

|                                                    | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|----------------------------------------------------|-------|------------------|------------------|
| Net assets disposed of:                            |       |                  |                  |
| Fixed assets                                       | 15    | 16,394           | —                |
| Investment properties                              | 16    | —                | 580,096          |
| Properties under development                       | 17    | 20,551           | 40,008           |
| Long term investment                               |       | 2,545            | —                |
| Inventories                                        |       | 829              | —                |
| Debtors and deposits                               |       | 12,568           | 1,086            |
| Cash and bank balances                             |       | 1,875            | 704              |
| Creditors, deposits received and accruals          |       | (28,172)         | (7,441)          |
| Interest-bearing bank and other borrowings         |       | (39,582)         | —                |
| Minority interests                                 |       | 2,062            | —                |
| Release of investment property revaluation reserve |       | —                | 113,921          |
| Release of exchange fluctuation reserve            |       | (2,305)          | —                |
|                                                    |       | <u>(13,235)</u>  | <u>728,374</u>   |
| Gain/(loss) on disposal                            |       | <u>19,230</u>    | <u>(296,361)</u> |
|                                                    |       | <u>5,995</u>     | <u>432,013</u>   |
| Satisfied by:                                      |       |                  |                  |
| Cash                                               |       | <u>5,995</u>     | <u>432,013</u>   |

# Notes to Financial Statements

31st July, 2003

## 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Disposal of subsidiaries (continued)

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

|                                                                                       | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---------------------------------------------------------------------------------------|------------------|------------------|
| Cash consideration received                                                           | 5,995            | 432,013          |
| Cash and bank balances disposed of                                                    | <u>(1,875)</u>   | <u>(704)</u>     |
| Net inflow of cash and cash equivalents<br>in respect of the disposal of subsidiaries | <u>4,120</u>     | <u>431,309</u>   |

The results of the subsidiaries disposed of during the year had no significant impact on the Group's consolidated turnover or loss after tax for the year.

The subsidiaries disposed of during the year ended 31st July, 2002 contributed turnover of HK\$28,121,000 and net profit of HK\$16,281,000 to the consolidated profit and loss account for that year.

## 36. COMMITMENTS

The Group and the Company had the following commitments not provided for in the financial statements at the balance sheet date:

|                                    | Group            |                  | Company          |                  |
|------------------------------------|------------------|------------------|------------------|------------------|
|                                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Capital commitments:               |                  |                  |                  |                  |
| Contracted for                     | —                | 27,234           | —                | —                |
| Authorised, but not contracted for | <u>2,724</u>     | <u>2,980</u>     | <u>—</u>         | <u>—</u>         |
|                                    | <u>2,724</u>     | <u>30,214</u>    | <u>—</u>         | <u>—</u>         |

# Notes to Financial Statements

31st July, 2003

## 37. CONTINGENT LIABILITIES

- (i) Contingent liabilities not provided for in the financial statements at the balance sheet date were as follows:

|                                                                     | Group            |                  | Company          |                  |
|---------------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                                     | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Guarantees given to banks in connection with facilities granted to: |                  |                  |                  |                  |
| Subsidiaries                                                        | —                | —                | 1,988,793        | 2,355,431        |
| Associates                                                          | 194,772          | 269,194          | 194,772          | 269,194          |
|                                                                     | <u>194,772</u>   | <u>269,194</u>   | <u>2,183,565</u> | <u>2,624,625</u> |
| Guarantees given in connection with the issue of Exchangeable Bonds | —                | —                | 621,671          | 740,025          |
| Guarantees given in connection with the issue of Convertible Bonds  | —                | —                | 906,750          | 965,250          |
|                                                                     | <u>194,772</u>   | <u>269,194</u>   | <u>3,711,986</u> | <u>4,329,900</u> |

- (ii) Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung, the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax (“LAT”) payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the “Property Interests”). These tax indemnities given by the Company 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, independent chartered surveyors, as at 31st October, 1997 (the “Valuation”); and (ii) the aggregate costs of such Property Interests incurred up to 31st 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 values 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 the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (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 Lai Fung as set out in Lai Fung’s prospectus dated 18th November, 1997.

# Notes to Financial Statements

31st July, 2003

## 37. CONTINGENT LIABILITIES (continued)

Lai Fung had no LAT payable during the year. No income tax payable by Lai Fung was indemnifiable by the Company during the year.

## 38. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 16) and certain completed properties for sale (note 25) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

|                                         | Group            |                  | Company          |                  |
|-----------------------------------------|------------------|------------------|------------------|------------------|
|                                         | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Within one year                         | 178,336          | 277,902          | 115,036          | 146,641          |
| In the second to fifth years, inclusive | <u>110,617</u>   | <u>214,228</u>   | <u>65,889</u>    | <u>86,397</u>    |
|                                         | <u>288,953</u>   | <u>492,130</u>   | <u>180,925</u>   | <u>233,038</u>   |

For the properties with their disposals completed after the balance sheet date, only the future minimum lease receivables under non-cancellable operating leases up to their respective completion dates were included in the above table.

### (b) As lessee

The Group leases certain properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|                                         | Group            |                  | Company          |                  |
|-----------------------------------------|------------------|------------------|------------------|------------------|
|                                         | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Within one year                         | 5,226            | 6,088            | 2,894            | 3,854            |
| In the second to fifth years, inclusive | <u>6,222</u>     | <u>9,357</u>     | <u>5,422</u>     | <u>7,596</u>     |
|                                         | <u>11,448</u>    | <u>15,445</u>    | <u>8,316</u>     | <u>11,450</u>    |

# Notes to Financial Statements

31st July, 2003

## 39. POST BALANCE SHEET EVENTS

Subsequent to the year end date, the following transactions were completed by the Group and detailed as follows:

- (i) On 29th July, 2003, an agreement for sale and purchase was entered into by the Company and an independent third party, pursuant to which the Company agreed to dispose of Lai Sun Yuen Long Centre (“LSYLC”) for a consideration of HK\$89,500,000. As at 31st July, 2003, LSYLC was classified as investment property and stated at the valuation of HK\$89,500,000 which resulted in a revaluation deficit of HK\$8,339,000. Such deficit was included in the Company’s consolidated investment property revaluation reserve at the balance sheet date. Upon the completion of such transaction on 6th August, 2003, the loss on disposal of LSYLC was approximately HK\$8,339,000.
- (ii) On 6th August, 2003, an agreement for sale and purchase was entered into by the Company and various parties, pursuant to which the Company agreed to dispose of its entire shareholding in Omicron International Limited, (“Omicron”), a 43.5% owned associate of the Group, together with its loan to Omicron with an aggregate carrying value of HK\$65,509,000, for HK\$35,000,000. The transaction was completed on 14th August, 2003. An impairment loss of HK\$30,509,000 on the Group’s interest in an associate was made and recorded in the Group’s current year profit and loss account to reflect the impairment of the Group’s interest in Omicron with reference to its subsequent disposal price.
- (iii) On 18th August, 2003, Lucky Strike Investment Limited, a wholly-owned subsidiary of the Company, received and accepted a private tender offer (“Tender”) from Wing On Properties and Securities Company Limited to sell Causeway Bay Plaza 1 (“CBP1”) for a cash consideration of HK\$1,200,000,000. As at 31st July, 2003, CBP1 was classified as investment property and stated at the valuation by an independent professional valuer of HK\$1,220,000,000 which resulted in a revaluation deficit of HK\$252,973,000 and such deficit was included in the Company’s consolidated investment property revaluation reserve. Upon the completion of such transaction on 23rd October, 2003, the Group will record a loss of HK\$272,973,000 and negative goodwill attributable to CBP1 of HK\$149,983,000 will also be released from the Group’s accumulated losses to the credit of the consolidated profit and loss account with a compensatory effect.

## 40. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year’s presentation.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7th November, 2003.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong on Monday, 22nd December, 2003 at 10:30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31st July, 2003;
2. To re-elect retiring directors and to fix the directors' remuneration;
3. To appoint auditors and to authorise the directors to fix their remuneration; and
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional ordinary shares in the Company, and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares in the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares in the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of ordinary share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of ordinary shares in the Company upon the exercise of rights of subscription or conversion under the terms of any of the securities which are convertible into shares of the Company; or (iii) an issue of ordinary shares in the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of ordinary shares in the Company under any option scheme or similar arrangement for the grant or issue to employees of the Company and/or any of its subsidiaries of ordinary shares in the Company or rights to acquire ordinary shares in the Company, shall not exceed 20% of the aggregate nominal amount of the issued ordinary share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

(d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; or
- (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and

“Rights Issue” means an offer of ordinary shares of the Company open for a period fixed by the directors to the holders of ordinary shares, whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such ordinary shares as at that date (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

By Order of the Board  
Yeung Kam Hoi  
*Company Secretary*

Hong Kong, 7th November, 2003

*Notes:*

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Registrars, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Annual General Meeting or its adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Annual General Meeting or at any of its adjourned meeting should they so wish.

## Notice of Annual General Meeting

3. Ordinary Resolution No. 4 relates to the granting of a general mandate to the directors of the Company to issue new ordinary shares of up to a maximum of 20% of the aggregate nominal amount of the issued ordinary share capital of the Company as at the date of the said resolution. The Company has no immediate plan to issue such new shares.