



**eSun Holdings Limited**

---

Annual Report 2004

## Contents

2	Corporate Profile
3	Corporate Information
4	Chairman's Statement
12	Report of the Directors
27	Report of the Auditors
30	Consolidated Profit and Loss Account
31	Consolidated Balance Sheet
33	Consolidated Summary Statement of Changes in Equity
34	Consolidated Cash Flow Statement
36	Company Balance Sheet
37	Notes to Financial Statements
84	Notice of Annual General Meeting



### **eSun Holdings Limited**

11/F Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

**Tel** (852) 2741 0391 **Fax** (852) 2785 2775

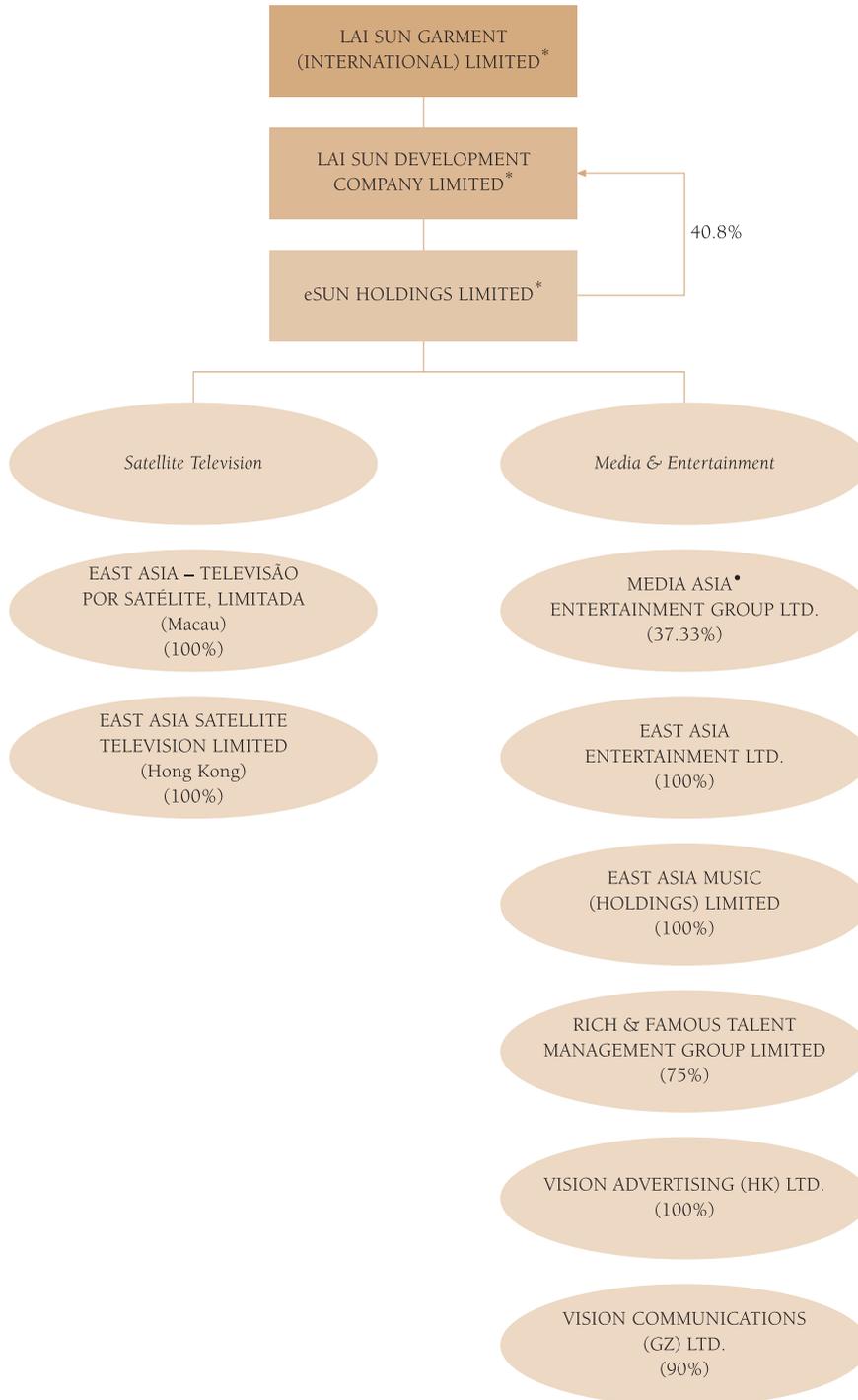
**Internet** <http://www.laisun.com>

**E-mail** [advpr@laisun.com](mailto:advpr@laisun.com)

*Stock code on Hong Kong Stock Exchange: 571*

# Corporate Profile

eSun Holdings Limited is a member of the Lai Sun Group which had been established in Hong Kong since 1947. The Company focuses on the development and operation of satellite television, film production, music production and distribution, entertainment and advertising agency services.



\* Listed on the Main Board of the Hong Kong Stock Exchange  
 • Listed on SGX-SESDAQ of Singapore Stock Exchange

# Corporate Information

## Place of Incorporation

Bermuda

## Directors

### *Executive Directors*

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Liu Ngai Wing

### *Non-Executive Directors*

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Shiu Kai Wah

Chiu Wai

Alfred Donald Yap\*

Low Chee Keong\*

Tong Ka Wing, Carl\*

\* *Independent non-executive Directors*

## Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## Secretary and Principal Office

Yeung Kam Hoi

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon

Hong Kong

## Share Registrars and Transfer Office

### **in Hong Kong**

Tengis Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## Share Registrars and Transfer Office

### **in Bermuda**

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08, Bermuda

## Auditors

Ernst & Young

Certified Public Accountants

15th Floor

Hutchison House

10 Harcourt Road

Central

Hong Kong

## Solicitors

*As to Hong Kong Law:*

Vincent T. K. Cheung, Yap & Co.

15th Floor, Alexandra House

16–20 Chater Road

Central

Hong Kong

*As to Bermuda Law:*

Conyers Dill & Pearman

2901 One Exchange Square

8 Connaught Place

Central

Hong Kong

## Bankers

Hang Seng Bank Limited

DBS Bank (Hong Kong) Limited

# Chairman's Statement



Chairman LIEN Jown Jing, Vincent

## BUSINESS REVIEW

### Overview of Results

Turnover for the year increased by 56% to HK\$152.78 million from HK\$97.80 million in 2003. This increase is attributable mainly to the increase in revenue from entertainment event production and sale of cosmetic products, but partially offset by a decrease in advertising income. Increases in other revenue and other operating gains and savings in administrative expenses, offset by increases in marketing expenses and loss on deemed disposal of interest in an associate were recorded to arrive at the cumulative loss on operating activities of HK\$57.33 million, which was a slight improvement compared with the loss of HK\$67.52 million in the previous year.

The loss from operating activities had been compensated for by the premium on settlement of a debt recognised as income arising on acquisition of a 40.8% interest in Lai Sun Development Company Limited ("LSD") of HK\$95.99 million and the share of profits and losses of associates, namely LSD and Media Asia Entertainment Group Limited, of HK\$30.64 million. The Group recorded an audited consolidated net profit attributable to shareholders of HK\$52.37 million, which was a noticeable improvement on the net loss of HK\$92.71 million reported for the previous year.

# Chairman's Statement

## **BUSINESS REVIEW (continued)**

### **Overview of Results (continued)**

Shareholders of the Company approved the Settlement Agreement entered into between the Group and the LSD group at a special general meeting of the Company held on 13th October, 2004. Completion of settlement of the debt due from Furama Hotel Enterprises Limited ("FHEL"), a wholly-owned subsidiary of LSD, to Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of the Company, took place on 7th December, 2004 and, as part of the settlement, a total of 5,200 million new ordinary shares of LSD were allotted and issued to the Group at the par value of HK\$0.50 per share, credited as fully paid. The aforesaid LSD shares represent approximately 40.8% of the total issued ordinary share capital of LSD. In addition, GPEL received a cash repayment of HK\$20 million, and it also extended an interest-bearing 5-year loan of HK\$225 million to FHEL, secured on the basis of the Ritz Carlton Security which GPEL will share with the bondholders of LSD on a pari passu basis.

### **East Asia Satellite Television Operations ("EAST")**

The operations reported a loss of HK\$31.30 million for the year under review, which was a significant improvement on the loss of HK\$67.07 million in the previous year, as it had been adversely affected by a provision for impairment of fixed assets amounting to HK\$21.01 million in the 2003. Tight cost control and decrease in depreciation further contributed to the improvement in operating results.

EAST will continue to implement its operating and business development plans whilst it awaits approval for a satellite television downlink licence from the relevant Mainland authorities. Programmes produced by EAST continued to be offered to subscribers of NOW Broadband TV of PCCW Limited in Hong Kong. Income generated from this source was on target.

Reclamation work at the site of the EAST Television City in Macau Special Administrative Region ("Macau") had been completed in the last quarter of 2004. Construction work at the site was slightly behind schedule as a number of alternative development plans have been evaluated by the Group in order to maximize the economic benefit of this project to the Group.

# Chairman's Statement

## **BUSINESS REVIEW (continued)**

### **East Asia Satellite Television Operations ("EAST") (continued)**

On 15th November, 2004, the Group entered into a binding memorandum of cooperation with Lai Fung Holdings Limited ("LFH") in which the Group granted to LFH in principle a right to participate in the development and profit distribution of a residential property project in a section covering approximately 20,000 square metres of the EAST Television City site (the "Section"). Earnest money totalling HK\$46 million had been paid by LFH. Based on a valuation of the Section made by an independent valuer, the estimated market value of the Section in its vacant state as at November 2004 was approximately HK\$115 million.

Under the terms of the memorandum of cooperation, the Group is obliged to obtain from the Macau government the relevant licence or approval for the design of works of the project no later than June 2005 or such other date as LFH may agree. LFH shall have the right during the period from 1st to 31st July, 2005 to withdraw from the project and the Group shall repay the earnest money to LFH. Assuming LFH does not elect to withdraw from the project, both parties will enter into a formal cooperation agreement no later than July 2005.

The Group has been exploring the feasibility of a number of potential development plans for the remainder of the aforesaid site. One of the proposals may possibly involve the construction of two hotels and the Television City, subject to obtaining the requisite approval from the Macau government and on the assumption that projected plot ratios in the range of 2.5 to 3 would be applicable for the proposal.

### **Film Production and Distribution**

Media Asia Entertainment Group Limited ("MAEG"), which became the holding company of Media Asia Holdings Limited following a restructuring prior to the listing of MAEG, successfully obtained a listing on Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System ("SGX-SESDAQ") and trading in the shares of MAEG commenced on 3rd November, 2004. The Group currently holds a 37.33% interest in MAEG.

## Chairman's Statement

### **BUSINESS REVIEW (continued)**

#### **Film Production and Distribution (continued)**

For the financial year ended 31st December, 2004, MAEG reported a net profit attributable to shareholders of HK\$40.02 million. Total revenue dropped by 21.1% in the year to HK\$242.5 million as, unlike in 2003, there was no disposal of film products and film rights. MAEG's film production and distribution operation achieved an increase in revenue to HK\$198.0 million from HK\$129.2 million in the previous year, which was attributable to the release of 8 new films during the year compared with 6 new films in the previous year.

#### **Entertainment**

During the year under review, East Asia Entertainment Limited ("EAE") recorded a significant increase in turnover to HK\$67.24 million from HK\$4.74 million in the previous year from entertainment event production. EAE produced 8 events and participated in 7 other events in joint-ventures with other parties.

Total revenue of the Group's media and entertainment segment for the year increased by 289% over the previous year. This increase was attributable to entertainment event production, as distribution income on pop concerts DVD/VCD products and licence fee income from films in the library of the Group had dropped by approximately 18% compared with the previous year.

To further expand the scope of the Group's entertainment business, the Group set up a subsidiary and a 50/50 joint-venture for music production and distribution business during the year. The Group produced four albums for Leon Lai and Denise Ho, two of the popular Canto-pop artistes in Hong Kong, with satisfactory results.

In all, the media and entertainment segment of the Group recorded a loss of HK\$10.08 million for the year.

### **PROSPECTS**

#### *EAST*

EAST will continue in its efforts to procure approval for a satellite television downlink licence from the authorities in the Mainland.

## Chairman's Statement

### **PROSPECTS (continued)**

#### *EAST (continued)*

The expected growth in the economy of Macau in the short- to medium-term should continue to support current market sentiment for high-end residential property. The residential property development project of EAST in cooperation with Lai Fung Holdings Limited, if it proceeds, would therefore benefit the Group.

As disclosed above, one of the potential development plans for the remainder of the EAST Television City site may involve the construction of two hotels and the Television City. If this proposal is adopted and approved by the Macau government, it is anticipated the component and weighting of investments of EAST will undergo significant changes.

#### *MAEG*

According to figures released by the China Film Bureau, the three top-grossing films in the Mainland in 2004 with over HK\$100 million in cinema ticket sales were high-budget Chinese language films produced in the Mainland, including MAEG's co-production "A World Without Thieves" starring Andy Lau from Hong Kong and Ge You from the Mainland.

MAEG intends to capitalise on the anticipated popularity of high-budget, quality productions featuring a combination of popular Hong Kong and Mainland talents through its present production and distribution activities, and in joint ventures with partners in the Mainland.

MAEG also anticipates an increase in newly constructed or refurbished multi-screen cinema complexes in major cities in the Mainland. It has expanded its business scope in the Mainland to include the provision of consultancy services for various film exhibition and related projects in the Mainland. It has also monitored closely a number of investment and consultancy opportunities in the businesses of film exhibition and cinema operation in the Mainland.

## Chairman's Statement

### **PROSPECTS (continued)**

#### *EAE*

The year 2004 witnessed a revival in the level of activity in local pop concerts. EAE expects this momentum to continue in the year 2005 as forecasts of growth of the local economy remain optimistic. Its operating plans for 2005 include the production of two concerts and participation in eleven other productions, which will involve over 100 shows in total.

#### *LSD*

The successful completion of the debt settlement plan of LSD in December 2004 has enabled it to re-establish a firm financial footing. There remains an obligation for LSD to repay HK\$266 million secured by the series A bonds issued by the LSD group before 31st December, 2005 through the disposal of LSD group's interests in two hotels in Vietnam and a residential property in Hong Kong. LSD has made a voluntary repayment equivalent to 10% of the total amount in early 2005, and is confident that the outstanding balance will be repaid on time.

LSD has benefited from price appreciation in the local property market over the past two years, as evidenced by strong rental reversions of its investment property portfolio and satisfactory contributions from sale of new property development projects during the year. It will remain prudent in formulating its property development strategy. Given the revival in global travel, it will continue to pursue hotel management opportunities in Hong Kong and the rest of Asia through Furama Hotels and Resorts International Ltd., which has maintained a fine track record in the management of three-to-four star hotels.

### **LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS**

As at 31st December, 2004, the Group had cash and cash equivalents of HK\$18,472,000, of which over 80% were denominated in Hong Kong dollar currency.

## Chairman's Statement

### LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS (continued)

As at 31st December, 2004, the bank borrowings of HK\$21,000,000 and HK\$4,000,000 which fall due within one year and the second year, respectively, are secured by fixed charges over the Group's land and buildings with an aggregate net book value of HK\$68,227,000 and are interest-bearing at 2.25% above HIBOR per annum. The Group has secured other borrowings of HK\$1,450,000 which fall due within one year and are secured by the Group's properties held for sale with an aggregate net book value of HK\$2,700,000 and are interest-bearing at 1% per month. The Group has unsecured other borrowings of HK\$21,200,000 and HK\$15,000,000 which fall due within one year and the second year, respectively, and bear interest at 1% per month. The Group also has unsecured other borrowings from an ex-director and ex-shareholder of the Company of HK\$127,321,000 with no fixed terms of repayment, bears interest at the HSBC prime rate per annum except for an amount of HK\$6,383,000 which is interest-free. The loan from a related company of HK\$13,339,000 is unsecured, bears interest at HSBC prime rate per annum and is not repayable prior to 31st December, 2006 except for an amount of HK\$839,000 which is interest-free. The loan from a director of HK\$9,659,000 is unsecured, interest-free and has no fixed terms of repayment. In addition, the Group has finance lease payables of HK\$40,000 and HK\$2,000 which fall due within one year and the second year, respectively, as at 31st December, 2004.

The Group's gearing is considered low, as the debt to equity ratio was only 12%, expressed as a percentage of total borrowings to total net assets. As at 31st December, 2004, the Group did not have any financial instruments for hedging purpose, or foreign currency net investment hedged by currency borrowings or other hedging instruments.

Future capital expenditures will mainly consist of the land and construction cost for the EAST-TV City in COTAI City in Macau. As at 31st December, 2004, the capital commitments contracted for in respect of this project amounted to HK\$36,633,000 (2003: HK\$21,979,000).

## Chairman's Statement

### **LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS (continued)**

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities and other borrowings will be sufficient to fund its capital expenditure and working capital requirements.

### **CONTINGENT LIABILITIES**

Details of contingent liabilities of the Group at the balance sheet date are set out in note 36 to the financial statements.

### **EMPLOYEES AND REMUNERATION POLICIES**

The Group employed a total of approximately 180 employees as at 31st December, 2004. The total staff costs including pension contributions for the year ended 31st December, 2004 were approximately HK\$45,180,000 (excluding directors' remuneration). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 25th November, 1996.

### **MANAGEMENT AND STAFF**

On behalf of the Board, I would like to thank the management and staff for their hard work and dedication during the year. I would also like to thank our shareholders, business partners and associates for their invaluable support.

**Lien Jown Jing, Vincent**  
*Chairman*

Hong Kong  
15th April, 2005

# Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2004.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the development and operation of and investment in media, entertainment, music production and distribution, Internet and technology-oriented businesses, the provision of advertising agency services, satellite television operations and sale of cosmetic products. There were no significant changes in the nature of the Group’s principal activities during the year.

## RESULTS AND DIVIDENDS

Details of the profit of the Group for the year ended 31st December, 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 83.

No interim dividend was paid or declared in respect of the year ended 31st December, 2004 (2003: Nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2004 (2003: Nil).

## DIRECTORS

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

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Lim Por Yen (retired at Annual General Meeting held on 25th May, 2004)

Liu Ngai Wing

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Shiu Kai Wah

Chiu Wai

Alfred Donald Yap\*

Low Chee Keong\*

Tong Ka Wing, Carl\* (appointed on 30th September, 2004)

\* *Independent non-executive Directors*

In accordance with Bye-law 87 of the Company’s Bye-laws, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Liu Ngai Wing will retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election.

# Report of the Directors

## **DIRECTORS' SERVICE CONTRACTS**

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

## **CONNECTED TRANSACTION**

On 28th June, 2004, the Company, Golden Pool Enterprise Limited, a wholly-owned subsidiary of the Company, Lai Sun Development Company Limited ("LSD") and Furama Hotel Enterprises Limited, a wholly-owned subsidiary of LSD entered into an agreement concerning the settlement of an amount due from Furama Hotel Enterprises Limited of HK\$1,500,040,000.

Since LSD is a substantial shareholder of the Company, the above transaction constituted a connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further details of the transaction are set out in note 19 to the financial statements.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed under the heading "Disclosure pursuant to Chapter 13 of the Listing Rules ("Chapter 13")" on pages 14 to 17, and in the notes to the financial statements, no Director had a material interest, either directly or indirectly, 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.

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

Save as disclosed in notes 6 and 19 to the financial statements, 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.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

Save as disclosed below, during the year and up to the date of this report, the following Directors of the Company are considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Mr. Lim Por Yen who was a director before he retired at the Annual General Meeting on 25th May, 2004, held personal interest in Media Asia Entertainment Group Limited ("MAEG"), a company incorporated in Bermuda. MAEG is based in Hong Kong and its principal activities are the production and distribution of films. Mr. Lim Por Yen disposed of his interest in MAEG on the listing of MAEG in Singapore in November 2004.

Mr. Lam Kin Ngok, Peter and Mr. Lee Po On were directors of MAEG during the year but ceased to be directors of MAEG in September 2004.

## Report of the Directors

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES (continued)

Mr. Lam Kin Ming is a director and the controlling shareholder of Big Honour Investment Ltd. ("Big Honour") (a private company incorporated in Hong Kong). The principal activities of Big Honour are the production of pop concerts and management of artistes.

As 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, the aforesaid companies.

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

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

At 31st December, 2004, there were 671,184,929 shares of the Company (the "Shares") in issue. Based on the average closing price of the Shares of HK\$1.376 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31st December, 2004, the total market capitalisation (the "Total Market Capitalisation") of the Company was HK\$923,550,462.

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

Name of affiliated companies	Percentage of Group's attributable interests	Financial assistance HK\$'000	Guarantee HK\$'000	Total HK\$'000	Notes
East Asia Record Production Company Limited	50	1,500	—	1,500	(a)
Lai Sun Development Company Limited ("LSD")	40.8	225,000	25,000	250,000	(b), (c)
Much Entertainment Limited	50	460	—	460	(a)
The Artiste Campus International Limited	50	15,679	—	15,679	(d)
		242,639	25,000	267,639	

# Report of the Directors

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

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

Notes (continued):

- (a) All balances due are unsecured, interest-free and have no fixed terms of repayment.
- (b) The loan was provided to Furama Hotel Enterprises Limited, a wholly-owned subsidiary of LSD. The loan bears interest at a rate of 4.5% per annum, payable semi-annually and is repayable in five years from 7th December, 2004. The loan was guaranteed by LSD and secured by the following:
- (i) a second charge over LSD's 65% indirect equity interest in Diamond String Limited (“Diamond String”), which wholly owns the Ritz-Carlton, Hong Kong. The charge is shared with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (collectively referred to as the “Bondholders”) on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the first charge over the shares of Surearn Profits Limited (“Surearn”) as mentioned below); and
  - (ii) a first charge over LSD's 100% indirect interest in Surearn, which owns a 65% equity interest of Diamond String, and, by way of security, an assignment of all shareholders' loans owed by Surearn to the LSD group. The charge and assignment are shared with the Bondholders on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the second charge over the shares of Diamond String as detailed above).
- (c) In connection with the Reorganisation Agreement as described in note 19 to the financial statements, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. (“GIGC”) to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.
- GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the “Land”) on which the golf club is situated, which showed unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.
- The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use rights certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK\$25,000,000. The Group also disclosed details of this indemnity in note 36 to the financial statements.
- (d) The advance is unsecured, bears interest at a rate of 1% above the prime rate quoted by Hongkong and Shanghai Banking Corporation Limited per annum and has no fixed terms of repayment.

# Report of the Directors

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

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

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

	HK\$'000
Fixed assets	1,342,751
Investment properties	3,425,400
Interests in associates	1,007,417
Long term investments	359,542
Pledged bank balances	41,202
Other non-current assets	8,882
Net current assets	<u>15,001</u>
Total assets less current liabilities	<u>6,200,195</u>
Interest-bearing bank and other borrowings	(2,365,072)
Provision for premium on loan repayment	(22,344)
Deferred tax	(40,856)
Long term rental deposits received	<u>(34,248)</u>
Total non-current liabilities	<u>(2,462,520)</u>
Minority interests	<u>(409,853)</u>
	<u>3,327,822</u>
CAPITAL AND RESERVES	
Issued capital	6,373,025
Share premium account	5,858,164
Other reserves	3,202,889
Accumulated losses	<u>(12,106,256)</u>
	<u>3,327,822</u>

As at 31st December, 2004, the Group's consolidated attributable interest in these affiliated companies amounted to HK\$1,356 million.

# Report of the Directors

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

### (C) Advance to an entity (Rule 13.13 of Chapter 13)

In compliance with Rule 13.13 of Chapter 13, details of the advance made to the following entity by the Company as at 31st December, 2004 which individually has exceeded 8% of the Total Market Capitalisation is set out below:

Name of entity	Percentage of Group's attributable interest	Financial assistance HK\$'000	Note
Furama Hotel Enterprises Limited (“FHEL”)	40.8	225,000	(a)

*Note:*

- (a) In June, 2000, the Company and LSD entered into a reorganisation agreement (the “Reorganisation Agreement”) whereby certain assets of the respective parties were exchanged, which also resulted in the Development Agreement (as defined in note 19 to the financial statements) being cancelled. Accordingly, the prepaid consideration of HK\$1,900,000,000 became immediately due from FHEL, a wholly-owned subsidiary of LSD, to Golden Pool Enterprise Limited (“GPEL”), a wholly-owned subsidiary of the Company. This amount was reduced by approximately HK\$400 million, being the net settlement by the Group in accordance with the Reorganisation Agreement. The net amount due from FHEL was therefore reduced to HK\$1,500,040,000 (the “Debt”).

On 28th June, 2004, the Company, GPEL, FHEL and LSD entered into an agreement (the “Settlement Agreement”) concerning the settlement of the Debt. One of the principal terms of the Settlement Agreement included the extension of a five year interest-bearing term loan of HK\$225,000,000 by the Group to FHEL. The loan bears interest at a rate of 4.5% per annum, payable semi-annually and is repayable in five years from 7th December, 2004. The loan was guaranteed by LSD and secured by the following:

- (i) a second charge over LSD's 65% indirect equity interest in Diamond String Limited (“Diamond String”), which wholly owns the Ritz-Carlton, Hong Kong. The charge is shared with the Exchangeable Bondholders and the Convertible Bondholders of the LSD group (collectively referred to as the “Bondholders”) on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the first charge over the shares of Surearn Profits Limited (“Surearn”) as mentioned below); and
- (ii) a first charge over LSD's 100% indirect interest in Surearn, which owns a 65% equity interest of Diamond String, and, by way of security, an assignment of all shareholders' loans owed by Surearn to the LSD group. The charge and assignment are shared with the Bondholders on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the second charge over the shares of Diamond String as detailed above).

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors

Mr. Lien Jown Jing, Vincent, Chairman, aged 44, first joined the Board as an independent non-executive Director in August 1998 and was later appointed an executive Director and elected the Chairman of the Company in December 1999. He has over 10 years' experience in banking and corporate finance in Hong Kong, China, Singapore and South-east Asia, having held various senior positions at different major multinational banking institutions.

Mr. Lee Po On, Chief Executive Officer, aged 49, was appointed an executive Director and Chief Executive Officer of the Company in March 2000. Mr. Lee joined the Lai Sun Group in November 1987. He is a director of Lai Sun Garment (International) Limited and Lai Fung Holdings Limited. Mr. Lee is a Fellow of the Association of Chartered Certified Accountants.

Mr. Lam Kin Ngok, Peter, aged 47, was appointed an executive Director of the Company in October 1996. He is also a deputy chairman of Lai Sun Garment (International) Limited ("LSG"), the chairman and president of Lai Sun Development Company Limited ("LSD"), a director of Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of the late Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming. Mr. Lam does not have a service contract with the Company and will receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Liu Ngai Wing, aged 54, was appointed an executive Director of the Company in November 1998. He is also an independent non-executive director of Hang Fung Gold Technology Limited, Climax International Company Limited, Jackley Holdings Ltd. and Daiwa Associate Holdings Limited, all being listed companies in Hong Kong. Mr. Liu holds a Master Degree in Business Administration, a Master of Science Degree in Hotel and Tourism Management and a Master of Science Degree in Global Business, and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Mr. Liu has a service contract with the Company and he is currently entitled to annual emoluments of HK\$2,100,000 and a discretionary bonus, to be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions. Mr. Liu does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

### Non-Executive Directors

Mr. Lam Kin Ming, aged 67, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Lam is also a deputy chairman of Lai Sun Garment (International) Limited ("LSG") and has been involved in the day-to-day management of the garment business since 1958. He is also the deputy chairman of Crocodile Garments Limited and Lai Fung Holdings Limited and a director of Lai Sun Development Company Limited ("LSD"). LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Lam is a son of the late Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

## Report of the Directors

### BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

#### Non-Executive Directors (continued)

Miss Tam Wai Chu, Maria, G.B.S., C.B.E., J.P., aged 59, was appointed to the Board in October 2000. Miss Tam is a member of the Hong Kong Bar Association having been called to the Bar at Gray's Inn in England in 1972 and admitted into practice in Hong Kong in 1973. She has been closely involved in community and public administration services in Hong Kong since 1979 and has served on an extensive number of public and government bodies. Miss Tam is a member of the Basic Law Committee of Hong Kong Special Administrative Region, and a deputy to the National People's Congress. In addition to her other current community duties, she is also a board member of the Airport Authority of Hong Kong and a board member of the Urban Renewal Authority, and the president of Hong Kong Police Force Junior Police Officers' Association. Miss Tam sits on the boards of a number of publicly listed and private companies in Hong Kong.

Madam U Po Chu, aged 80, is a non-executive Director of the Company and was first appointed to the Board in October 1996. She is also a non-executive director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD") and Crocodile Garments Limited, and an executive director of Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Madam U has about 60 years' experience in the garment manufacturing business and has been involved in the printing business since the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and also became involved in property development and investment in the late 1980's. She is the widow of the late Mr. Lim Por Yen. Madam U does not have a service contract with the Company and will receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Shiu Kai Wah, aged 72, is a non-executive Director of the Company and was first appointed to the Board in October 1996. He is also a director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD"), Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Shiu has over 30 years' experience in the management of the garment business.

Mr. Chiu Wai, aged 74, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Chiu is also a director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD"), Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is a substantial shareholder of LSD. Mr. Chiu has close to 50 years' experience in production management, having worked for the Lai Sun Group's garment business since 1955.

Mr. Alfred Donald Yap, J.P., aged 66, is an independent non-executive Director of the Company and was first appointed to the Board in December 1996. Mr. Yap is presently a consultant of K. C. Ho & Fong, Solicitors and Notaries. Mr. Yap is a former president of The Law Society of Hong Kong and past president of The Law Association for Asia and the Pacific (LAWASIA). Mr. Yap is also a former Hong Kong Affairs Adviser appointed by the Chinese Government.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

### Non-Executive Directors (continued)

Mr. Low Chee Keong, aged 44, was appointed an independent non-executive Director of the Company in August 1999. Mr. Low has been a member of the Chartered Institute of Marketing of the United Kingdom since 1986. He has over 10 years' experience in the property development and maintenance industry in Singapore, and is currently the managing director of Hong Siong Holding Pte Ltd..

Mr. Tong Ka Wing, Carl, aged 54, was appointed an independent non-executive Director of the Company in September, 2004. Mr. Tong is currently the managing director and chief executive officer of Creative Master Bermuda Limited, a company listed on the main board of the Singapore Exchange Securities Trading Limited. Mr. Tong is a member of the Hong Kong Institute of Certified Public Accountants and he qualified as a Chartered Accountant of England and Wales in 1981. He has over 20 years' experience in corporate management.

### SHARE OPTION SCHEME

Details of the Company's share option scheme are included in note 31 to the financial statements.

In compliance with the provisions of Chapter 17 of the Listing Rules, appropriate amendments will be made to items (b) and (d) in note 31 to the financial statements and other terms and conditions of the share option scheme should the Company continue to grant options under the existing scheme.

### DIRECTORS' INTERESTS

As at 31st December, 2004, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives 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 (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

#### The Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares		Total	Percentage
			Corporate Interests	Capacity		
Lien Jown Jing, Vincent	931,800	Nil	Nil	Beneficial owner	931,800	0.14%
Lee Po On	5,195,934	Nil	Nil	Beneficial owner	5,195,934	0.77%
Lam Kin Ngok, Peter	Nil	Nil	285,512,791 (Note)	Beneficial owner	285,512,791	42.54%
Liu Ngai Wing	3,321,215	Nil	Nil	Beneficial owner	3,321,215	0.49%

## Report of the Directors

### **DIRECTORS' INTERESTS (continued)**

*Note:* Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in the Company. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 12.42% in the issued ordinary share capital of LSD. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his deemed interest in approximately 33.73% of the issued share capital of LSG. In addition, Mr. Lam Kin Ngok, Peter was taken to be interested in approximately 29.81% of the issued ordinary share capital of LSD as he granted the Bondholders (as defined in LSD's circular to its shareholders dated 15th September, 2004) of LSD on 7th December, 2004, a non-assignable right to put to him 3,800,040,000 shares in LSD in two tranches (first tranche: 1,000,600,000 shares exercisable during the period from 8th February to 7th March, 2005; second tranche: 2,799,440,000 shares exercisable during the period from 1st November to 30th November, 2005). Mr. Lam Kin Ngok, Peter was therefore deemed to be interested in the interest of LSD in the Company.

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

### **ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES**

Save for the share option scheme disclosed above and in note 31 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

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

Name	Long positions in the shares			Percentage
	Capacity	Nature (Note 1)	Number of Shares	
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate	285,512,791 (Note 2)	42.54%
Lam Kin Ngok, Peter	Beneficial owner	Corporate	285,512,791 (Note 3)	42.54%
Silver Ace Limited	Beneficial owner	Corporate	36,879,000 (Note 4)	5.49%
Lagonda Resources Limited	Beneficial owner	Corporate	36,879,000 (Notes 4 and 5)	5.49%
Li Chi Keung	Beneficial owner	Corporate & Family	36,879,000 (Notes 4 and 6)	5.49%
Wong Hoi Ping	Beneficial owner	Corporate & Family	36,879,000 (Notes 4 and 7)	5.49%
Lovendale International Inc.	Person having a security interest in shares	Corporate	285,512,791 (Note 4)	42.54%
Onshine Finance Limited	Person having a security interest in shares	Corporate	100,000,002 (Note 4)	14.90%

Notes:

1. Family and corporate denote family interest and corporate interest respectively.
2. This interest has been pledged to a non-qualified lender by way of security.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

### (continued)

Notes (continued):

3. Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in the Company. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares in LSD representing approximately 12.42% in the issued ordinary share capital of LSD. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his deemed interest in approximately 33.73% of the issued share capital of LSG. In addition, Mr. Lam Kin Ngok, Peter was taken to be interested in approximately 29.81% of the issued ordinary share capital of LSD as he granted the Bondholders (as defined in LSD's circular to its shareholders dated 15th September, 2004) of LSD on 7th December, 2004, a non-assignable right to put to him 3,800,040,000 shares in LSD in two tranches (first tranche: 1,000,600,000 shares exercisable during the period from 8th February to 7th March, 2005; second tranche: 2,799,440,000 shares exercisable during the period from 1st November to 30th November, 2005). Mr. Lam Kin Ngok, Peter was therefore deemed to be interested in the interest of LSD in the Company.
4. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.
5. Lagonda Resources Limited was taken to be interested in 36,879,000 shares in the Company beneficially owned by Silver Ace Limited due to its corporate interests therein.
6. Mr. Li Chi Keung was taken to be interested in 36,879,000 shares in the Company by virtue of his corporate and family interests in Silver Ace Limited.
7. Ms. Wong Hoi Ping was taken to be interested in 36,879,000 shares in the Company by virtue of her corporate and family interests in Silver Ace Limited.

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 equity derivatives of the Company as at 31st December, 2004.

23

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors at the date of this report, the Company is in compliance with the sufficiency of public float requirements under the Listing Rules during the year ended 31st December, 2004.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

# Report of the Directors

## DISTRIBUTABLE RESERVES

As at 31st December, 2004, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK\$2,888,269,000, may be distributed in the form of fully paid bonus shares.

## 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. Purchases from the Group's five largest suppliers accounted for 55% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19%.

Other than Mr. Lim Por Yen who was a director before he retired at the Annual General Meeting on 25th May, 2004, and who owned an approximate 1.96% equity interest in a listed company which is one of the major customers of the Group, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## SUMMARY OF FINANCIAL INFORMATION

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

### Results

	Year ended 31st December,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<u>152,781</u>	<u>97,804</u>	<u>176,278</u>	<u>84,376</u>	<u>206,948</u>
PROFIT/(LOSS) BEFORE TAX	<u>50,313</u>	<u>(89,575)</u>	<u>(69,460)</u>	<u>(179,423)</u>	<u>(1,114,292)</u>
Tax	<u>2,056</u>	<u>(3,129)</u>	<u>985</u>	<u>(2,130)</u>	<u>(14,875)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>52,369</u>	<u>(92,704)</u>	<u>(68,475)</u>	<u>(181,553)</u>	<u>(1,129,167)</u>
Minority interests	<u>—</u>	<u>(3)</u>	<u>(324)</u>	<u>(135)</u>	<u>462</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>52,369</u>	<u>(92,707)</u>	<u>(68,799)</u>	<u>(181,688)</u>	<u>(1,128,705)</u>

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued)

### Assets, Liabilities and Minority Interests

	As at 31st December,				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Fixed assets	166,029	144,251	154,000	141,975	95,089
Long term investments	—	—	—	9,682	34,553
Interests in jointly-controlled entities	1,125	1,463	779	6,006	—
Interests in associates	1,713,103	113,053	48,903	85,983	52,537
Due from Furama Hotel Enterprises Limited	—	1,500,040	1,500,040	1,500,040	1,500,040
Deferred tax assets	—	—	—	661	1,360
Film rights	190,684	197,655	113,109	—	—
Current assets	<u>85,231</u>	<u>64,193</u>	<u>87,128</u>	<u>219,791</u>	<u>284,912</u>
<b>TOTAL ASSETS</b>	<b><u>2,156,172</u></b>	<b><u>2,020,655</u></b>	<b><u>1,903,959</u></b>	<b><u>1,964,138</u></b>	<b><u>1,968,491</u></b>
Current liabilities	(292,303)	(236,571)	(81,670)	(72,385)	(57,016)
Long term bank loans and other borrowings	<u>(32,341)</u>	<u>(5,042)</u>	<u>(77)</u>	<u>(107)</u>	<u>(103)</u>
<b>TOTAL LIABILITIES</b>	<b><u>(324,644)</u></b>	<b><u>(241,613)</u></b>	<b><u>(81,747)</u></b>	<b><u>(72,492)</u></b>	<b><u>(57,119)</u></b>
<b>MINORITY INTERESTS</b>	<b><u>(196)</u></b>	<b><u>(196)</u></b>	<b><u>(206)</u></b>	<b><u>(319)</u></b>	<b><u>(221)</u></b>
	<b><u>1,831,332</u></b>	<b><u>1,778,846</u></b>	<b><u>1,822,006</u></b>	<b><u>1,891,327</u></b>	<b><u>1,911,151</u></b>

### COMPLIANCE WITH 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 which was in force prior to 1st January, 2005 throughout the year ended 31st December, 2004. 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 Company's Bye-laws.

### AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive Directors, namely Mr. Alfred Donald Yap, Mr. Low Chee Keong and Mr. Tong Ka Wing, Carl as at the report date.

# Report of the Directors

## AUDITORS

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

ON BEHALF OF THE BOARD

**Lien Jown Jing, Vincent**

*Chairman*

Hong Kong

15th April, 2005

# Report of the Auditors



To the members

**eSun Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 30 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of 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 90 of the Bermuda Companies Act 1981, 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 Institute of Certified Public Accountants (the "HKICPA"), except that the scope of our work was limited as explained below.

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

### SCOPE LIMITATION OF THE CARRYING VALUE OF FILM RIGHTS

As further detailed in note 20 to the financial statements, the Group recorded film rights with an aggregate carrying value of HK\$190,684,000 as at 31st December, 2004. The directors engaged an independent third party (the “Valuer”) to perform a valuation of the Group’s all rights, titles and interests to 127 films (the “127 Film Rights”) of the total film rights which had a carrying value of HK\$190,570,000 as at 31st December, 2004 in order to provide them with a reference to assess if there is any impairment in value of the Group’s total film rights as at that date. Having regard to the valuation performed by the Valuer and the current market conditions, the directors are of the opinion that there is no impairment in the value of the Group’s film rights as at 31st December, 2004. We have been unable to obtain sufficient reliable information to carry out the audit procedures required by the Statement of Auditing Standards 520 “Using the Work of an Expert” (“SAS 520”) issued by the HKICPA, to satisfy ourselves as to (i) the competence and objectivity of the Valuer; and (ii) the adequacy of the scope of the Valuer’s work on the 127 Film Rights. Accordingly, we have been unable to carry out adequate audit procedures to assess the carrying amount of the film rights as at 31st December, 2004. Included in the consolidated profit and loss account for the year ended 31st December, 2004 is an amortisation charge on the Group’s film rights of HK\$6,971,000. We are also unable either to obtain sufficient reliable information, or to carry out alternative audit procedures to satisfy ourselves as to the appropriateness of the basis of computation of the amortisation charge.

Any adjustments that might have been found necessary in respect of the above would have a consequential impact on the net assets of the Group as at 31st December, 2004 and the net profit 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.

### FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the basis of presentation of these financial statements prepared by the directors of the Company. As explained in note 2, these financial statements have been prepared on a going concern basis, the validity of which depends on the continuous financial support from the Group’s financial creditors and the successful implementation of other measures. These financial statements do not include any adjustments that may be necessary if the Company fails to obtain continuous support from its financial creditors or to successfully implement the other measures. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

## Report of the Auditors

### QUALIFIED OPINION ARISING FROM SCOPE LIMITATION

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence relating to the carrying value of the film rights as set out in the basis of opinion section, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work relating to the film rights above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

15th April, 2005

# Consolidated Profit and Loss Account

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	8		
Continuing operations		152,781	94,334
Discontinued operation	7	—	3,470
		<u>152,781</u>	<u>97,804</u>
Cost of sales		(139,432)	(112,290)
Gross profit/(loss)		13,349	(14,486)
Other revenue	8	7,953	1,940
Marketing expenses		(17,017)	(10,572)
Administrative expenses		(67,154)	(78,430)
Other operating gains/(expenses), net		10,240	(8,259)
Loss on deemed disposal of an associate	18(b)	(4,705)	—
Gain on disposal of a discontinued operation	7	—	10,361
Gain on disposal of interests in associates		—	31,923
		<u>(57,334)</u>	<u>(67,523)</u>
LOSS FROM OPERATING ACTIVITIES	9	(57,334)	(67,523)
Finance costs	10	(13,884)	(4,296)
Premium on settlement of a debt	19	95,994	—
Share of profits and losses of associates		30,638	(12,520)
Amortisation of goodwill on acquisition of an associate		(2,122)	(2,214)
Share of profits and losses of jointly-controlled entities		(1,968)	(1,972)
Provision for amounts due from jointly-controlled entities		(1,011)	(1,050)
		<u>50,313</u>	<u>(102,921)</u>
PROFIT/(LOSS) BEFORE TAX		50,313	(102,921)
Continuing operations		50,313	(102,921)
Discontinued operation	7	—	13,346
		<u>50,313</u>	<u>(89,575)</u>
Tax	12	2,056	(3,129)
		<u>52,369</u>	<u>(92,704)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		52,369	(92,704)
Minority interests		—	(3)
		<u>52,369</u>	<u>(92,707)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	13, 32	52,369	(92,707)
EARNINGS/(LOSS) PER SHARE	14		
— BASIC		<u>HK7.80 cents</u>	<u>(HK14.86 cents)</u>
— DILUTED		<u>N/A</u>	<u>N/A</u>

# Consolidated Balance Sheet

31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	15	166,029	144,251
Interests in jointly-controlled entities	17	1,125	1,463
Interests in associates	18	1,713,103	113,053
Due from Furama Hotel Enterprises Limited	19	—	1,500,040
Film rights	20	190,684	197,655
		<u>2,070,941</u>	<u>1,956,462</u>
<b>CURRENT ASSETS</b>			
Short term investments	21	22	83
Self-produced and purchased programmes		795	3,594
Properties held for sale	22	2,700	—
Debtors and deposits	23	63,242	38,066
Cash and cash equivalents	24	18,472	22,450
		<u>85,231</u>	<u>64,193</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	25	108,714	70,378
Tax payable		2,919	1,138
Finance lease payables	26	40	35
Interest-bearing bank and other borrowings	27	170,971	64,200
Loan from a related company	28	—	12,712
Loans from directors	29	9,659	88,108
		<u>292,303</u>	<u>236,571</u>
<b>NET CURRENT LIABILITIES</b>		<u>(207,072)</u>	<u>(172,378)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> — page 32		<b>1,863,869</b>	<b>1,784,084</b>

# Consolidated Balance Sheet

31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> — page 31		<b>1,863,869</b>	1,784,084
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payables	26	(2)	(42)
Interest-bearing bank and other borrowings	27	(19,000)	(5,000)
Loan from a related company	28	(13,339)	—
		<u>(32,341)</u>	<u>(5,042)</u>
<b>MINORITY INTERESTS</b>		<u>(196)</u>	<u>(196)</u>
		<b>1,831,332</b>	1,778,846
<b>CAPITAL AND RESERVES</b>			
Issued capital	30	335,592	335,592
Reserves	32	1,495,740	1,443,254
		<u>1,831,332</u>	<u>1,778,846</u>

# Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>TOTAL EQUITY AT 1ST JANUARY</b>		<b>1,778,846</b>	1,822,006
Exchange realignment on translation of the financial statements of foreign subsidiaries, net	32	<u>117</u>	<u>(17)</u>
Net gains and losses not recognised in the profit and loss account		<u>117</u>	<u>(17)</u>
Issue of shares	30	—	50,000
Share issue expenses	30	—	(364)
Exchange fluctuation reserve released upon disposal of a subsidiary	32	—	(72)
Net profit/(loss) attributable to shareholders	32	<u>52,369</u>	<u>(92,707)</u>
<b>TOTAL EQUITY AT 31ST DECEMBER</b>		<b><u>1,831,332</u></b>	<b><u>1,778,846</u></b>

# Consolidated Cash Flow Statement

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		50,313	(89,575)
Adjustments for:			
Finance costs	10	13,884	4,296
Premium on settlement of a debt	19	(95,994)	—
Amortisation of goodwill on acquisition of an associate		2,122	2,214
Provision for amounts due from jointly-controlled entities		1,011	1,050
Share of profits and losses of associates		(30,638)	12,520
Share of profits and losses of jointly-controlled entities		1,968	1,972
Loss on deemed disposal of an associate	18(b)	4,705	—
Gain on disposal of a discontinued operation	7	—	(10,361)
Gain on disposal of interests in associates		—	(31,923)
Interest income	8	(739)	(136)
Depreciation	9	4,929	12,757
Gain on disposal of a long term investment	9	(1,885)	—
Gain on disposal of investment properties	9	(8,072)	—
Impairment loss of self-produced and purchased programmes	9	2,385	—
Impairment of fixed assets	9	—	21,011
Amortisation of self-produced and purchased programmes	9	374	666
Amortisation of film rights	9	6,971	2,591
Unrealised holding loss/(gain) on short term investments	9	12	(36)
Loss/(gain) on disposal of short term investments	9	589	(14)
Provision for bad and doubtful debts	9	3,127	112
Loss on disposal of fixed assets	9	54	196
Write-back of provision for bad and doubtful debts	9	(168)	(1,081)
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited	9, 34(a)	(7,300)	—
Operating loss before working capital changes		(52,352)	(73,741)
Increase in film rights		—	(76,500)
Decrease in self-produced and purchased programmes		40	1,113
Decrease in inventories		—	2,590
Decrease in loan receivable		—	2,548
Decrease/(increase) in debtors and deposits		(30,126)	20,179
Increase in creditors and accruals		37,190	9,053
Cash used in operations		(45,248)	(114,758)
Hong Kong taxes paid		—	(13,441)
Overseas taxes refunded		3,795	56
Net cash inflow/(outflow) from operating activities			
— page 35			
Continuing operations		(41,453)	(132,951)
Discontinued operation		—	4,808
		(41,453)	(128,143)

# Consolidated Cash Flow Statement

Year ended 31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Net cash inflow/(outflow) from operating activities			
— page 34			
Continuing operations		(41,453)	(132,951)
Discontinued operation		—	4,808
		<u>(41,453)</u>	<u>(128,143)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets	15	(26,832)	(23,896)
Proceeds from disposal of fixed assets		73	—
Proceeds from disposal of investment properties		34,372	—
Proceeds from disposal of interests in associates		—	35,215
Advances to associates		(160)	(1,184)
Advances to jointly-controlled entities		(2,644)	(3,734)
Dividend received from an associate		—	90
Proceeds from disposal of short term investments		1,695	102
Additions of short term investments		(2,235)	—
Proceeds from disposal of a long term investment		1,885	—
Partial settlement of a debt	19	20,000	—
Acquisition of subsidiaries	33(b)	216	457
Disposal of a subsidiary	33(c)	—	10,289
Receipt of the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited	34(a)	10,354	—
Interest received		46	136
		<u>36,770</u>	<u>17,475</u>
Net cash inflow from investing activities			
Continuing operations		36,770	17,475
Discontinued operation		—	—
		<u>36,770</u>	<u>17,475</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Share issue expenses	30	—	(364)
New bank borrowings		10,000	10,000
New other borrowings		59,188	45,200
Loans from directors and a related company		13,650	73,758
Repayment of bank borrowings		(9,000)	(11,000)
Repayment of other borrowings		(65,250)	—
Capital element of finance lease rental payments		(35)	(31)
Interest paid		(7,848)	(3,158)
Dividend paid to a minority shareholder		—	(13)
		<u>705</u>	<u>114,392</u>
Net cash inflow from financing activities			
Continuing operations		705	114,392
Discontinued operation		—	—
		<u>705</u>	<u>114,392</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>(3,978)</u>	<u>3,724</u>
Cash and cash equivalents at beginning of year		22,450	18,726
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>18,472</u>	<u>22,450</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents	24	18,472	22,450

# Company Balance Sheet

31st December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	16	1,833,613	1,846,552
<b>CURRENT ASSETS</b>			
Self-produced and purchased programmes		715	3,474
Debtors and deposits		1,903	2,224
Cash and cash equivalents	24	6,903	261
		<u>9,521</u>	<u>5,959</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		1,121	1,219
Tax payable		412	412
Interest-bearing bank and other borrowings	27	170,971	64,200
Loan from a related company	28	—	12,712
Loans from directors	29	9,659	88,108
		<u>182,163</u>	<u>166,651</u>
<b>NET CURRENT LIABILITIES</b>		<u>(172,642)</u>	<u>(160,692)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,660,971	1,685,860
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	27	(19,000)	(5,000)
Loan from a related company	28	(13,339)	—
		<u>(32,339)</u>	<u>(5,000)</u>
		<u>1,628,632</u>	<u>1,680,860</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	30	335,592	335,592
Reserves	32	1,293,040	1,345,268
		<u>1,628,632</u>	<u>1,680,860</u>

Lien Jown Jing, Vincent  
Director

Lee Po On  
Director

# Notes to Financial Statements

31st December, 2004

## 1. CORPORATE INFORMATION

The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

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

- development and operation of, and investment in media, entertainment, music production and distribution, Internet and technology-oriented businesses;
- the provision of advertising agency services;
- satellite television operations; and
- sale of cosmetic products.

## 2. BASIS OF PRESENTATION

As at 31st December, 2004, the Group recorded consolidated net current liabilities of HK\$207 million (2003: HK\$172 million), consolidated accumulated losses of HK\$2,284 million (2003: HK\$2,336 million) and consolidated net assets of HK\$1,831 million (2003: HK\$1,779 million).

Included in the net current liabilities of HK\$207 million were bank loans of HK\$21 million, loans from a director of HK\$10 million and other loans of HK\$150 million (collectively, the “Financial Creditors”), all of which are due for repayment within the next 12 months from the balance sheet date.

In order to improve the Group’s working capital position, profitability and operations, the Group has adopted and continue to implement the following measures:

- (a) the Group continues to seek ongoing support from its Financial Creditors, and to explore opportunities for different sources of financing to strengthen the Group’s working capital position; and
- (b) the Group continues to implement measures to tighten cost controls over various general and administrative expenses and to attain profitable and positive cash flow operations.

The directors of the Company believe that the Group will be successful in obtaining ongoing support from its Financial Creditors and in exploring opportunities for different sources of financing and that it will be successful in improving cash flow through tightening of cost controls and attaining profitable and positive cash flow operations. 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 was 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. The effects of these potential adjustments have not been reflected in the financial statements.

# Notes to Financial Statements

31st December, 2004

### 3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants (the “HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain equity 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 December, 2004. 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.

#### **Subsidiaries**

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

The 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.

#### **Joint venture companies**

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

# Notes to Financial Statements

31st December, 2004

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

### Joint venture companies (continued)

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

A joint venture company is treated as:

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

### Jointly-controlled entities

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

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

### Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against the consolidated reserves, is included as part of the Group's interests in associates.

# Notes to Financial Statements

31st December, 2004

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

### Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 to 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill 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.

40

### 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 and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to Financial Statements

31st December, 2004

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

### Fixed assets and depreciation

Fixed assets, other than construction in progress, 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.

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	Over the terms of the leases
Furniture, fixtures and equipment	20.0%
Broadcast operations and engineering equipment	10.0%
Motor vehicles	10.0%–20.0%
Computers	10.0%–20.0%

Construction in progress represents a building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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

### 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. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

### Self-produced programmes

Self-produced programmes are stated at cost less any impairment losses. Cost comprises direct expenditure and an attributed portion of direct production overheads. The relevant portion of the cost of self-produced programmes is charged to the profit and loss account in accordance with the number of episodes broadcast in the financial year.

# Notes to Financial Statements

31st December, 2004

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

### Purchased programme rights

Purchased programme rights, which represent entitlements under contracts to receive and broadcast programmes, are stated at cost less any impairment losses. The cost of purchased programme rights is charged to the profit and loss account upon the first broadcasting of the programmes and in accordance with the number of episodes broadcast in the financial year.

### Film rights

Film rights are certain rights to completed films acquired from outsiders and are stated at cost less accumulated amortisation and any impairment losses.

Film rights are amortised proportionately to the estimated projected revenues over their economic beneficial period subject to a maximum period of 10 years. Estimated projected revenues are reviewed on a film-by-film basis at a regular interval. Additional amortisation or impairment will be charged if future estimated projected revenues adversely differ from the previous estimation.

### Properties held for sale

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

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. 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) advertising agency fee income, in the period in which such advertising services are rendered;
- (b) programme distribution fee income, when the master audio and visual materials have been delivered to the licensee for immediate exploitation of programmes;
- (c) turnover from entertainment events organised by the Group, when the events are completed;

# Notes to Financial Statements

31st December, 2004

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

### Revenue recognition (continued)

- (d) net income from entertainment events organised by other co-investors, when the events are completed and are in proportion as agreed with co-investors;
- (e) Internet maintenance service fee income, when the relevant services are rendered;
- (f) television technical service fee income, when the relevant services are rendered;
- (g) income from the sale of short term investments, on the transaction date when the relevant contract is entered into;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (i) artiste management fee income, when the relevant services are provided;
- (j) turnover from sale of goods, when significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (k) income from films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment which permits the licensee to exploit those rights freely is made and the Group has no remaining obligations to perform and when the film materials have been delivered to the licensees and up to the amount of consideration received, and subject to due allowance for contingencies;
- (l) income from films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, over the licence period and when the films are available for showing or telecast;
- (m) income from the sale of albums, when the albums are delivered and the titles have been passed;
- (n) album distribution commission income, when the albums have been delivered to the wholesalers and distributors;
- (o) rental income, when the properties are let out and on a time proportion basis over the lease terms;
- (p) television airtime sales, when the relevant advertisements are broadcast; and
- (q) hotel management fee income, in the period in which such management services are rendered (discontinued during the prior year — note 7).

# Notes to Financial Statements

31st December, 2004

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

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

### **Employee benefits**

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### **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, associates and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to 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 included in the Group's accumulated losses.

# Notes to Financial Statements

31st December, 2004

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

### Foreign currencies (continued)

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.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by the amount that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

# Notes to Financial Statements

31st December, 2004

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

### Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### 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.

### 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, and assets similar in nature to cash, which are not restricted as to use.

46

## 5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the media and entertainment segment engages in investment in and the production of entertainment events, the provision of artiste management services, the licensing of motion pictures and films, and album sales and distribution;
- (b) the satellite television segment engages in the television broadcasting business, including the production of television programmes, the operation of a satellite television channel and other related services;
- (c) the advertising agency segment engages in the provision of advertising agency services, primarily in respect of advertisements on television and in newspapers;

# Notes to Financial Statements

31st December, 2004

## 5. SEGMENT INFORMATION (continued)

- (d) the corporate and other segment comprises the debt advanced to FHEL (as defined in note 19), further details of which are included in note 19 to the financial statements, interest in LSD (note 18), sale of cosmetic products, together with corporate income and expense items; and
- (e) the hotel management segment engaged in the provision of management services to hotels (discontinued during the prior year (note 7)).

In determining the Group's geographical segments, revenues 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.

There were no intersegment sales and transfers during the year (2003: Nil).

### (a) Business segments

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

#### Group

	Media and entertainment		Satellite television		Advertising agency		Corporate and other		(Discontinued operation)		Consolidated		
	2004	2003	2004	2003	2004	2003	2004	2003	Hotel management	2004	2003	2004	2003
	HK\$'000	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 revenue:													
Sales to external customers	82,784	21,430	3,652	2,355	53,244	64,291	13,101	6,258	—	3,470	152,781	97,804	
Other revenue	4,715	1,092	—	23	265	643	2,927	46	—	—	7,907	1,804	
Total	87,499	22,522	3,652	2,378	53,509	64,934	16,028	6,304	—	3,470	160,688	99,608	
Segment results	(10,076)	1,563	(31,296)	(67,068)	2,543	214	(23,202)	(47,687)	—	2,985	(62,031)	(109,993)	
Unallocated interest and other gains											46	136	
Loss on deemed disposal of an associate	(4,705)	—									(4,705)	—	
Gain on disposal of a discontinued operation									—	10,361	—	10,361	
Gain on disposal of interests in associates	—	30,288					—	1,635			—	31,923	
Gain/(loss) on disposal of short term investments	(597)	—					8	14			(589)	14	
Unrealised holding gain/(loss) on short term investments							(12)	36			(12)	36	
Gain on disposal of a long term investment	1,885	—									1,885	—	
Gain on disposal of investment properties							8,072	—			8,072	—	
Loss from operating activities											(57,334)	(67,523)	
Finance costs											(13,884)	(4,296)	
Premium on settlement of a debt							95,994	—			95,994	—	
Share of profits and losses of associates	16,748	(12,520)					13,890	—			30,638	(12,520)	
Amortisation of goodwill on acquisition of an associate	(2,122)	(2,214)									(2,122)	(2,214)	
Share of profits and losses of jointly-controlled entities	(1,968)	(1,972)									(1,968)	(1,972)	
Provision for amounts due from jointly-controlled entities	(1,011)	(1,050)									(1,011)	(1,050)	
Profit/(loss) before tax											50,313	(89,575)	
Tax											2,056	(3,129)	
Profit/(loss) before minority interests											52,369	(92,704)	
Minority interests											—	(3)	
Net profit/(loss) attributable to shareholders											52,369	(92,707)	

# Notes to Financial Statements

31st December, 2004

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

#### Group

	Media and entertainment		Satellite television		Advertising agency		Corporate and other		(Discontinued operation) Hotel management		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	235,580	215,358	166,516	145,184	19,117	24,344	20,709	1,521,155	—	—	441,922	1,906,041
Interests in associates	123,179	113,053	—	—	—	—	1,589,924	—	—	—	1,713,103	113,053
Interests in jointly-controlled entities	1,125	1,463	—	—	—	—	—	—	—	—	1,125	1,463
Unallocated assets	—	—	—	—	—	—	—	—	—	—	22	98
Total assets											2,156,172	2,020,655
Segment liabilities	11,564	26,684	63,238	14,109	21,213	21,464	12,019	8,121	—	—	108,034	70,378
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	216,610	171,235
Total liabilities											324,644	241,613
Other segment information:												
Depreciation	128	1,967	4,316	10,455	36	32	449	303	—	—	4,929	12,757
Amortisation of goodwill on acquisition of an associate	2,122	2,214	—	—	—	—	—	—	—	—	2,122	2,214
Amortisation of film rights	6,971	2,591	—	—	—	—	—	—	—	—	6,971	2,591
Amortisation of self-produced and purchased programmes	374	666	—	—	—	—	—	—	—	—	374	666
Impairment of fixed assets	—	—	—	21,011	—	—	—	—	—	—	—	21,011
Provision for bad and doubtful debts	2,545	112	—	—	21	—	561	—	—	—	3,127	112
Write-back of provision for bad and doubtful debts	—	—	—	—	—	—	168	1,081	—	—	168	1,081
Impairment loss of self-produced and purchased programmes	2,385	—	—	—	—	—	—	—	—	—	2,385	—
Capital expenditure	121	51	25,444	23,688	35	27	1,232	130	—	—	26,832	23,896

48

### (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

#### Group

	Hong Kong		PRC-Mainland (including Macau)		Other areas		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	98,918	33,699	53,863	60,635	—	3,470	152,781	97,804
Other segment information:								
Segment assets	2,052,050	1,936,149	104,100	84,018	—	390	2,156,150	2,020,557
Unallocated assets	—	—	—	—	—	—	22	98
Total assets							2,156,172	2,020,655
Capital expenditure	1,210	141	25,622	23,755	—	—	26,832	23,896

# Notes to Financial Statements

31st December, 2004

## 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	
		2004 HK\$'000	2003 HK\$'000
Hotel management, royalty and marketing fees received from hotels held by related companies (a)	(i)	—	3,470
Hotel management fees paid to a related company (a)	(ii)	—	783
Interest income on an amount due from Furama Hotel Enterprises Limited ("FHEL") (note 19) (a)		<b>693</b>	—
Purchases of film rights from an associate	(iii)	—	124,000
Distribution and licence fee income from an associate	(iv)	<b>709</b>	9,269
Advertising income from related companies (b)	(v)	<b>12,980</b>	—
Distribution commissions paid to an associate	(vi)	<b>1,236</b>	—
Internet maintenance service fee income from related companies (c)	(vii)	<b>1,700</b>	<b>779</b>

(a) The related companies are subsidiaries of Lai Sun Development Company Limited ("LSD"), which was a substantial shareholder holding a 42.54% equity interest in the Company as at the balance sheet dates. During the year, LSD became an associate of the Group when the restructuring of the amount due from FHEL was completed on 7th December, 2004, further details of which are set out in note 19 to the financial statements.

(b) The related companies are associates of Lai Sun Garment (International) Limited ("LSG"), which was a substantial shareholder of LSD during the year.

(c) The related companies are LSD and an associate of LSG.

### Notes:

- (i) The hotel management, royalty and marketing fees were charged to the hotels at certain percentages ranging from 3% to 5% on the gross revenue or operating profits of the hotels.
- (ii) The hotel management fees paid were charged at certain percentages ranging from 1.5% to 1.8% on the gross revenue of the hotels.

# Notes to Financial Statements

31st December, 2004

## 6. RELATED PARTY TRANSACTIONS (continued)

Notes (continued):

- (iii) The film rights were purchased from an associate of the Group pursuant to the terms as stipulated in the sale and purchase agreement.
- (iv) The distribution and licence fee income was charged to an associate based on contract terms.
- (v) The advertising income was charged to the related companies with reference to market rates.
- (vi) The distribution commissions were charged at 5% or 15% on the gross licence fee income.
- (vii) The Internet maintenance service fee income was charged to the related companies on a basis mutually agreed by the parties.

## 7. DISCONTINUED OPERATION

As detailed in note 16, GHRV (as defined in note 16), a wholly-owned subsidiary of the Group, was disposed of during the prior year.

The Group's business of the provision of management services to hotels (the "hotel management operations") was conducted through GHRV and therefore the Group's hotel management operations was discontinued after its disposal in the prior year. The disposal resulted in a gain of HK\$10,361,000. GHRV was disposed of to divest the Group's non-core business.

The turnover, expenses and results of the hotel management operations for the year ended 31st December, 2003 were as follows:

50

	HK\$'000
TURNOVER	3,470
Cost of sales	(783)
Gross profit	2,687
Administrative expenses	(264)
Other operating gains, net	562
Gain on disposal of a discontinued operation (note 33(c))	10,361
PROFIT BEFORE TAX	13,346
Tax	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	13,346

There were no assets or liabilities relating to the discontinued operation as at 31st December, 2003.

# Notes to Financial Statements

31st December, 2004

## 8. TURNOVER AND OTHER REVENUE

An analysis of turnover and other revenue is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>		
Advertising agency income	53,244	64,291
Distribution and licence fee income	11,239	13,784
Entertainment event income	67,244	4,736
Album sales and distribution commission income	605	—
Television airtime sales	665	—
Internet maintenance service fee income	2,084	909
Television technical service income	903	1,576
Sale of cosmetic products	13,101	6,258
Artiste management fee income	3,696	2,780
Hotel management fee income	—	3,470
	<b>152,781</b>	<b>97,804</b>
<b>Other revenue</b>		
Interest income	739	136
Gross rental income	2,062	—
Others	5,152	1,804
	<b>7,953</b>	<b>1,940</b>
	<b>160,734</b>	<b>99,744</b>

# Notes to Financial Statements

31st December, 2004

## 9. LOSS FROM OPERATING ACTIVITIES

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
This is arrived at after charging/(crediting):			
Gross rental income		(2,062)	—
Less: Outgoings		<u>1,208</u>	<u>—</u>
Net rental income		<u>(854)</u>	<u>—</u>
Cost of film rights and licence rights		8,037	12,082
Cost of self-produced and purchased programmes		18,196	27,300
Cost of services provided		107,546	66,139
Cost of inventories sold		<u>5,653</u>	<u>6,769</u>
Total cost of sales		<u>139,432</u>	<u>112,290</u>
Staff costs:			
Wages and salaries**			
(including directors' emoluments — see note 11)		49,055	61,932
Pension scheme contributions		<u>1,425</u>	<u>1,478</u>
		<u>50,480</u>	<u>63,410</u>
Auditors' remuneration		880	800
Depreciation**	15	4,929	12,757
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events #		2,810	248
Others		3,179	3,047
Contingent rents incurred for entertainment events #		<u>11,633</u>	<u>780</u>
Total operating lease payments		<u>17,622</u>	<u>4,075</u>

## Notes to Financial Statements

31st December, 2004

## 9. LOSS FROM OPERATING ACTIVITIES (continued)

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Gain on disposal of a long term investment*		(1,885)	—
Gain on disposal of investment properties*		(8,072)	—
Impairment loss of self-produced and purchased programmes*		2,385	—
Impairment of fixed assets*	15	—	21,011
Amortisation of self-produced and purchased programmes***		374	666
Amortisation of film rights***	20	6,971	2,591
Unrealised holding loss/(gain) on short term investments*		12	(36)
Loss/(gain) on disposal of short term investments*		589	(14)
Provision for bad and doubtful debts*		3,127	112
Loss on disposal of fixed assets*		54	196
Share of net income from entertainment events organised by other co-investors*		(1,806)	(551)
Write-back of provision for bad and doubtful debts*		(168)	(1,081)
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited*	34(a)	(7,300)	—

\* These items are included in the "Other operating gains/(expenses), net" as shown on the face of the consolidated profit and loss account.

\*\* Wages and salaries of HK\$5,667,000 (2003: HK\$8,810,000) and a depreciation charge of HK\$2,265,000 (2003: HK\$6,997,000) are included in the "cost of sales" on the face of the consolidated profit and loss account.

\*\*\* These items are included in the "cost of sales" on the face of the consolidated profit and loss account.

# These items are included in the "cost of sales" on the face of the consolidated profit and loss account. The contingent rents are charged based on a certain percentage of the gross ticket proceeds collected in respect of the entertainment events.

# Notes to Financial Statements

31st December, 2004

## 10. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	11,100	2,396
Interest on loans from directors and a related company	2,401	1,513
Interest on finance leases	8	12
Refinancing charges of bank borrowings	375	375
	<u>13,884</u>	<u>4,296</u>

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	580	480
Other emoluments:		
Basic salaries, bonuses, housing and other allowances, and benefits in kind	4,520	15,571
Pension scheme contributions	200	202
	<u>5,300</u>	<u>16,253</u>

Total directors' fees of HK\$580,000 (2003: HK\$480,000) were paid to three (2003: two) independent non-executive directors during the year.

# Notes to Financial Statements

31st December, 2004

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

### (a) Directors' emoluments (continued)

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

	Group	
	2004	2003
Nil – HK\$1,000,000	11	10
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$10,500,001 – HK\$11,000,000	—	1
	<u>13</u>	<u>13</u>

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

### (b) Employees' emoluments

The five highest paid employees during the year included one (2003: two) director, the details of whose emoluments are set out above. Details of the remuneration of the remaining four (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	7,620	6,180
Pension scheme contributions	<u>186</u>	<u>114</u>
	<u>7,806</u>	<u>6,294</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Group	
	2004	2003
HK\$1,500,001 – HK\$2,000,000	3	2
HK\$2,000,001 – HK\$2,500,000	<u>1</u>	<u>1</u>
	<u>4</u>	<u>3</u>

# Notes to Financial Statements

31st December, 2004

## 12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax had been provided in the prior year as there were no assessable profits generated during the prior year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK\$'000	HK\$'000
<hr/>		
Provision for tax for the year:		
Hong Kong	1,628	—
Elsewhere	137	50
	<hr/>	<hr/>
	1,765	50
	<hr/>	<hr/>
Prior years' under/(over)provisions:		
Hong Kong	—	(24)
Elsewhere	(3,779)	2
	<hr/>	<hr/>
	(3,779)	(22)
	<hr/>	<hr/>
Share of tax attributable to:		
Associates	(45)	3,073
Jointly-controlled entities	3	28
	<hr/>	<hr/>
	(42)	3,101
	<hr/>	<hr/>
Total tax charge/(credit) for the year	<hr/> <b>(2,056)</b>	<hr/> <b>3,129</b>

# Notes to Financial Statements

31st December, 2004

## 12. TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, associates and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>50,313</u>		<u>(89,575)</u>	
Tax at the statutory tax rate	8,805	17.5	(15,676)	(17.5)
Adjustments in respect of current tax of previous periods	(3,779)	(7.5)	(22)	0.0
Income not subject to tax	(24,422)	(48.5)	(8,626)	(9.6)
Expenses not deductible for tax	11,430	22.7	20,503	22.9
Estimated tax losses utilised from previous periods	(374)	(0.7)	(1,989)	(2.2)
Estimated tax losses not recognised	<u>6,284</u>	<u>12.4</u>	<u>8,939</u>	<u>9.9</u>
Tax charge/(credit) at the Group's effective rate	<u>(2,056)</u>	<u>(4.1)</u>	<u>3,129</u>	<u>3.5</u>

No deferred tax has been provided as the Group and the Company did not have any significant temporary differences which gave rise to a deferred tax asset or liability at the balance sheet date for both years presented.

The Group has tax losses arising in Hong Kong of HK\$654,019,000 (2003: HK\$609,101,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31st December, 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

## 13. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31st December, 2004 dealt with in the financial statements of the Company was HK\$52,228,000 (2003: HK\$99,572,000) (note 32).

# Notes to Financial Statements

31st December, 2004

## 14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$52,369,000 (2003: net loss for the year of HK\$92,707,000) and the weighted average of 671,184,929 (2003: 623,787,668) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31st December, 2004 and 2003 have not been shown as no diluting events existed during these years.

## 15. FIXED ASSETS

### Group

	31st December, 2003 HK\$'000	Additions HK\$'000	Disposals HK\$'000	Exchange realignments HK\$'000	31st December, 2004 HK\$'000
Cost:					
Construction in progress	58,335	25,259	—	—	83,594
Land and buildings	75,000	—	—	—	75,000
Leasehold improvements	26,738	205	(228)	—	26,715
Furniture, fixtures and equipment	4,073	115	—	3	4,191
Broadcast operations and engineering equipment	24,820	184	(80)	—	24,924
Motor vehicles	875	893	(150)	3	1,621
Computers	14,304	176	—	5	14,485
	<u>204,145</u>	<u>26,832</u>	<u>(458)</u>	<u>11</u>	<u>230,530</u>
Accumulated depreciation and impairment:					
Land and buildings	4,838	1,935	—	—	6,773
Leasehold improvements	26,511	117	(117)	—	26,511
Furniture, fixtures and equipment	3,476	225	—	3	3,704
Broadcast operations and engineering equipment	10,745	2,263	(80)	—	12,928
Motor vehicles	659	159	(134)	3	687
Computers	13,665	230	—	3	13,898
	<u>59,894</u>	<u>4,929</u>	<u>(331)</u>	<u>9</u>	<u>64,501</u>
Net book value	<u>144,251</u>				<u>166,029</u>

# Notes to Financial Statements

31st December, 2004

## 15. FIXED ASSETS (continued)

The Group's land and buildings are situated in Hong Kong, held under medium term leases and are pledged to secure general banking facilities granted to the Group (note 27).

The net book value of assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2004, amounted to HK\$31,000 (2003: HK\$78,000).

The cost of the construction in progress comprises the premium paid for land registered in Macau under a medium term lease and expenditure incurred for the development of a television city constructed thereon, further details of which are set out in note 35(a) to the financial statements.

In the prior year, the directors evaluated the business activity and future performance of the satellite television business and considered that certain of the fixed assets used in this business were impaired. Accordingly, an impairment loss of the fixed assets of HK\$21,011,000 was charged to the consolidated profit and loss account in the prior year. The impairment loss was determined by the directors of the Group with reference to the net selling price of the fixed assets obtained from the market as at 31st December, 2003.

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	998,000	997,700
Amounts due from subsidiaries	<u>2,680,631</u>	<u>2,658,517</u>
	3,678,631	3,656,217
Provision for impairment	<u>(1,845,018)</u>	<u>(1,809,665)</u>
	<u>1,833,613</u>	<u>1,846,552</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for those as set out below:

- (i) an amount of HK\$225,000,000, which bears interest at a rate of 1% per annum; and
- (ii) an amount of HK\$1,450,000, which bears interest at a rate of 1% per month.

In the prior year, the amounts due from subsidiaries were unsecured, interest-free and had no fixed terms of repayment.

# Notes to Financial Statements

31st December, 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective percentage of capital held by Company	Group	Principal activities
Active Light Limited	Hong Kong	HK\$2 Ordinary	100	100	Property investment
East Asia Entertainment Limited	Hong Kong	HK\$2 Ordinary	—	100	Entertainment activity production
East Asia Music (Holdings) Limited	Hong Kong	HK\$10,000 Ordinary	—	100	Music production and distribution
East Asia Satellite Television Limited	Hong Kong	HK\$2 Ordinary	—	100	Programme production, distribution, broadcasting and other related services
East Asia-Televisão Por Satélite, Limitada*	Macau	MOP25,000 Quota	—	100	Programme production, distribution and broadcasting
Glynhill International Limited	Hong Kong	HK\$912,623,351 Ordinary	100	100	Investment holding
Golden Pool Enterprise Limited	Hong Kong	HK\$2 Ordinary	—	100	Investment holding
Guangzhou Beautifirm Cosmetic Limited***	Mainland China	US\$1,260,000#	—	100	Sale of cosmetic products
Kaleidoscope International Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	100	100	Property holding
Rich & Famous Talent Management Group Limited	Hong Kong	HK\$100 Ordinary	—	75	Provision of artiste management services
Skymaster International Inc.	British Virgin Islands/ Hong Kong	US\$1 Ordinary	100	100	Investment holding
Vision Advertising (HK) Limited	Hong Kong	HK\$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited****	Mainland China	HK\$3,000,000#	—	90	Provision of advertising agency services
Zimba International Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	—	100	Investment holding

# Notes to Financial Statements

31st December, 2004

## 16. INTERESTS IN SUBSIDIARIES (continued)

- # The amount stated represents the paid-up capital in the People's Republic of China.
- ## This subsidiary is a wholly-foreign owned enterprise.
- ### This subsidiary is a co-operative joint venture.
- \* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

### Notes:

- (a) On 3rd January, 2004, the Company and Soundfield Holdings Limited ("SHL"), a third party, entered into an agreement (the "Agreement"). Pursuant to the Agreement, the Company agreed to purchase and SHL agreed to sell the entire issued share capital of Active Light Limited, which holds certain industrial buildings (the "Properties") in Hong Kong together with a secured other borrowing of HK\$28,700,000, for a consideration of HK\$300,000. Further details of this acquisition are included in note 33(b) to the financial statements.
- (b) During the prior year, the Group entered into the following transactions with LSD which is a substantial shareholder of the Company. These transactions constituted connected transactions of which were subject to the disclosure requirements under Chapter 14, which was in force prior to 31st March, 2004, of the Listing Rules.
- (i) On 8th November, 2002, the Company and LSD entered into an agreement pursuant to which the Company agreed to sell, and LSD agreed to purchase, the entire issued share capital of Houseman International Limited ("HIL"), a wholly-owned subsidiary of the Company which held a 50% equity interest in HKATV.com Limited, for a consideration of HK\$46,080,000 (the "Consideration"). On the same date, LSD entered into a conditional agreement (the "DGI Agreement") with Dragon Goodwill International Limited ("DGI") to sell to DGI the entire share capital of HIL together with LSD's 32.75% interest in Asia Television Limited ("ATV") (the "ATV Transaction").
- On 14th May, 2003, the Company and LSD entered into a supplemental agreement pursuant to which the Consideration was reduced to HK\$33,580,000. On the same date, LSD and DGI entered into a supplemental agreement pursuant to which the consideration for the ATV Transaction was also reduced. The above transactions were completed on 25th July, 2003 and the Group recorded a gain on disposal of an associate of HK\$30,288,000.
- (ii) On 26th September 2003, Delta Asia Limited ("DAL"), a wholly-owned subsidiary of the Company, and Furama Hotels and Resorts International Limited ("FHRI"), a wholly-owned subsidiary of LSD, entered into an agreement pursuant to which DAL agreed to sell, and FHRI agreed to purchase, the entire issued share capital of Glynhill Hotels and Resorts (Vietnam) Pte Ltd ("GHRV"), a then wholly-owned subsidiary of DAL which held the hotel management rights of the Caravelle Hotel, for a consideration of HK\$10,300,000. The transaction was completed on 31st October, 2003. Further details of this disposal are included in note 33(c) to the financial statements.

# Notes to Financial Statements

31st December, 2004

## 17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net liabilities	(8,742)	(6,771)
Amounts due from jointly-controlled entities	<u>18,458</u>	<u>15,814</u>
	9,716	9,043
Provision for amounts due from jointly-controlled entities	<u>(8,591)</u>	<u>(7,580)</u>
	<u>1,125</u>	<u>1,463</u>

Except for an amount of HK\$15,679,000 (2003: HK\$13,129,000) which bears interest at a rate of 1% above the prime rate quoted by the Hongkong and Shanghai Banking Corporation Limited (the "HSBC prime rate") per annum, the balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of jointly-controlled entities are as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
The Artiste Campus International Limited	Corporate	Hong Kong	50	50	50	Provision of agency services to artistes
Much Entertainment Limited*	Corporate	Hong Kong	50	50	50	Provision of concert production services
Good Friends Limited* ("Good Friends")	Corporate	Hong Kong	50	50	Note	Entertainment activity production
East Asia Record Production Company Limited*	Corporate	Hong Kong	50	50	50	Music production and distribution

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

*Note:* The profit sharing ratio for each entertainment activity operated by Good Friends, ranging from 30% to 60%, is stated in the joint venture agreement.

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

# Notes to Financial Statements

31st December, 2004

## 18. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	1,473,811	92,280
Goodwill on acquisition, net of amortisation	<u>13,285</u>	<u>19,926</u>
	1,487,096	112,206
Amounts due from associates	<u>226,007</u>	<u>847</u>
	<u>1,713,103</u>	<u>113,053</u>

As at 31st December, 2004, the market value of the listed shares of certain associates amounted to HK\$920,277,000.

The balances with associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from Furama Hotel Enterprises Limited of HK\$225,000,000 which bears interest at a rate of 4.5% per annum and is repayable in five years from 7th December, 2004, further details of which are set out in note 19 to the financial statements.

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation/ operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Media Asia Entertainment Group Limited ("MAEG")	Corporate	Bermuda/ Hong Kong	Ordinary	37.33	Film production and distribution
Lai Sun Development Company Limited	Corporate	Hong Kong	Ordinary	40.80	Property development

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.

# Notes to Financial Statements

31st December, 2004

## 18. INTERESTS IN ASSOCIATES (continued)

### (a) Acquisition of additional interest in Media Asia Holdings Limited (“MAH”)

On 15th May, 2003, the Group entered into an agreement with Double Classic Limited, Liu Wing Leung, Jerry and Chong Koon Nam, independent third parties (collectively referred to as the “Vendors”), pursuant to which the Company agreed to purchase and the Vendors agreed to sell the entire issued share capital of Splendid Agents Limited (“SAL”) for a total consideration of HK\$50,000,001 (the “Consideration”) which was satisfied by the issue and allotment of 100,000,002 shares of the Company at par value of HK\$0.5 each. The principal activity of SAL is investment holding. It held 14.64% of the issued share capital of MAH. Following the acquisition of SAL, the Group’s equity interest in MAH increased from 35.13% to 49.77%. The Consideration was agreed based on the assessment of the financial performance of MAH as reflected in its profits in the past track records and its profit potential in the future, and the par and trading values of the shares of the Company.

### (b) Listing of shares of MAEG on the Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System (the “SGX-SESDAQ”)

MAEG was incorporated in Bermuda in January 2000. Prior to the listing of MAEG’s shares on the SGX-SESDAQ on 3rd November, 2004, MAEG acquired the entire issued share capital of MAH, in exchange for the allotment and issue of new MAEG shares, from the former shareholders of MAH, on a pro-rata basis. Additionally, MAEG also made a public offering of 60,000,000 new ordinary shares at an issue price of S\$0.25 each. After MAEG’s listing of its shares on the SGX-SESDAQ, the shareholding interest of the Group in MAEG was diluted from 49.77% to 37.33% which resulted in a loss on deemed disposal of HK\$4,705,000. The loss is charged to the consolidated profit and loss account during the year.

### (c) Interest in LSD

As part of the settlement of the debt due by FHEL to the Group (as further explained in note 19 to the financial statements below), the Group received 5,200 million shares of LSD, which represented a 40.8% equity interest in LSD on 7th December, 2004 and 31st December, 2004. As at 31st December, 2004, LSD and its subsidiaries also held an aggregate of 42.54% equity interest in the Company. The change in shareholding structure resulted in a cross holding between the Group and LSD. Therefore, the Group’s share of result in LSD for the year and subsequent accounting periods also includes the result of the Group which is shared by LSD while equity accounting for the Group’s results.

# Notes to Financial Statements

31st December, 2004

## 18. INTERESTS IN ASSOCIATES (continued)

### (c) Interest in LSD (continued)

Included in the Group's share of net assets of associates is the share of net assets of LSD which, in the opinion of directors, is material in the context of the Group's financial statements. Details of the consolidated net assets of LSD and its subsidiaries (collectively the "LSD Group") as at 31st January, 2005, together with its unaudited results for the six months ended 31st January, 2005 are set out below:

#### LSD Group\*

	As at 31st January, 2005 HK\$'000
Non-current assets	6,184,988
Current assets	656,940
Current liabilities	(624,160)
Non-current liabilities	(2,462,514)
Minority interests	(409,853)
	<u>3,345,401</u>
Contingent liabilities in relation to guarantees given to banks and other financial creditors in connection with facilities granted to associates	<u>298,190</u>
	Six months ended 31st January, 2005 HK\$'000
Turnover	<u>396,134</u>
Loss before tax	(1,221,511)
Tax	<u>(12,512)</u>
Loss before minority interests	(1,234,023)
Minority interests	<u>(21,946)</u>
Net loss from ordinary activities attributable to shareholders	<u>(1,255,969)</u>

\* Since LSD's financial year end date is 31st July, the above amounts have been extracted from the published unaudited interim report of LSD for the six months ended 31st January, 2005.

# Notes to Financial Statements

31st December, 2004

## 18. INTERESTS IN ASSOCIATES (continued)

### (c) Interest in LSD (continued)

The Group's share of net assets of the LSD Group included in the Group's interests in associates as at 31st December, 2004 was HK\$1,364,924,000.

Save as disclosed above, LSD had the following contingent liabilities not provided for in its financial statements as at 31st January, 2005:

Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between LSD and Lai Fung Holdings Limited ("Lai Fung"), LSD 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. Further details of this indemnity are set out in the interim report of LSD for the six months ended 31st January, 2005.

Lai Fung had no LAT payable during the period ended 31st January, 2005. No income tax payable by Lai Fung was indemnifiable by LSD during the period ended 31st January, 2005.

With respect to the financial statements of the LSD Group for the year ended 31st July, 2004, the auditors of LSD stated in their reports that:

- (1) they had been unable to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy themselves as to the value of LSD's 42.54% equity interest in the Group included in the consolidated balance sheet of the LSD Group as at 31st July, 2004 because the auditors of the Company issued a disclaimer opinion on the financial statements of the Group for the year ended 31st December, 2003 on (a) the scope limitations in respect of (i) the recoverability of HK\$1,500,040,000 due by the LSD Group to the Group and (ii) impairment of film rights owned by the Group with a carrying value of HK\$197,655,000 as at 31st December, 2003 (further details of which are set out in note 20 to the financial statements); and (b) the Group's fundamental uncertainty relating to the going concern basis.
- (2) With respect to the fundamental uncertainty relating to the going concern basis adopted in the preparation of the financial statements of the LSD Group for the year ended 31st July, 2004, the auditors of LSD considered that appropriate disclosures have been made in the financial statements of the LSD Group and their opinion was not qualified in this respect.

Because of the significance of the possible effect of the scope limitations in evidence available to them discussed in (1) above, the auditors of LSD issued a disclaimed opinion on the financial statements of the LSD Group for the year ended 31st July, 2004.

In respect of (1) (a) (i) above, the amount due to the Group by the LSD Group of HK\$1,500,040,000 was settled during the year, further details of which are set out in note 19 to the financial statements.

# Notes to Financial Statements

31st December, 2004

## 19. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED (“FHEL”)

On 11th February, 1999, the Company and its wholly-owned subsidiary, Golden Pool Enterprise Limited (“GPEL”), entered into an agreement (the “Development Agreement”) with LSD and its wholly-owned subsidiary, FHEL, with respect to the purchase by GPEL of the retail and hotel portions of a composite retail, hotel and office building to be redeveloped from the Furama Hotel Hong Kong. The consideration was HK\$1,900,000,000 which was prepaid in full by GPEL to FHEL in 1999.

In June, 2000, the Company and LSD entered into a reorganisation agreement (the “Reorganisation Agreement”) whereby certain assets of the respective parties were exchanged, which also resulted in the Development Agreement being cancelled. Accordingly, the prepaid consideration of HK\$1,900,000,000 became immediately due from FHEL. This amount was reduced by approximately HK\$400 million, being the net settlement by the Group in accordance with the Reorganisation Agreement. The net amount due from FHEL was therefore reduced to HK\$1,500,040,000 (the “Debt”).

Subsequently, an intercompany debt deed was entered into by the Company, LSD, FHEL and GPEL (the “Debt Deed”). Pursuant to the Debt Deed, the Company agreed to defer the settlement of the Debt to the earlier of 31st December, 2002 or the day on which the Exchangeable Bonds and Convertible Bonds 2002 of the LSD Group are repaid in full. The Debt bore interest at a rate of 5% per annum.

FHEL defaulted in the settlement of the Debt upon its maturity, and as at 31st December, 2003, the Debt due by FHEL remained outstanding and overdue.

On 28th June, 2004, the Company, GPEL, FHEL and LSD entered into an agreement (the “Settlement Agreement”) concerning the settlement of the Debt. The principal terms of the Settlement Agreement included (i) cash settlement of HK\$20 million; (ii) the issue of 5,200 million ordinary shares in LSD at an issue price of HK\$0.50 per share (the “LSD Shares”), which represented 40.8% of the enlarged issued capital of LSD; and (iii) the extension of a five year interest-bearing term loan of HK\$225,000,000 by the Group to FHEL (the “Term Loan”). Further details of the Settlement Agreement are set out on the Company’s circular dated 15th September, 2004.

The Settlement Agreement constituted a very substantial acquisition and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules in view of the consequential holding of a 40.8% equity interest by the Group in LSD and the extension of the Term Loan by the Group, and as LSD is a substantial shareholder of the Company. Accordingly, approval from independent shareholders of the Company was required. Such approval was obtained pursuant to a resolution passed at a special general meeting of the Company held on 13th October, 2004, and the Settlement Agreement was completed on 7th December, 2004 (the “Completion Date”).

On the Completion Date, the Group recognised a premium on settlement of the Debt of HK\$95,994,000 (the “Premium”) which represented the excess of the recoverable amount of the settlement over the value of the Debt. The Premium is credited to the consolidated profit and loss account for the current year.

# Notes to Financial Statements

31st December, 2004

## 19. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED (“FHEL”) (continued)

The Group has covenanted and undertaken to LSD not to dispose of the LSD Shares until the earlier of 31st January, 2006 and the purchase by Mr. Peter Lam Kin Ngok, during the period from 1st November, 2005 to 30th November, 2005, of 2,799,440,000 LSD shares issued to the bondholders in connection with the settlement of the Exchangeable Bonds and the Convertible Bonds issued by LSD. Such lock-up undertaking does not prohibit:

- (1) the LSD Shares from being transferred or sold to any member of the Group provided that if such transferee ceases to be a member of the Group, the LSD Shares shall be transferred back to any other member of the Group;
- (2) the LSD Shares from being pledged or charged as security for a bona fide commercial loan from an authorised institution (as defined in the Banking Ordinance) or from any other company or person that is independent of and not connected with the Group; and
- (3) the LSD Shares from being tendered for transfer or sale, at the Group’s sole and absolute discretion, to the relevant person(s) who makes an unconditional offer to purchase all of the issued share capital of LSD in accordance with the provisions of the Hong Kong Code on Takeovers and Mergers.

The Term Loan as at 31st December, 2004 which is included in interests in associates, was guaranteed by LSD and secured by the following:

- a. a second charge over LSD’s 65% indirect equity interest in Diamond String Limited (“Diamond String”), which wholly owns the Ritz-Carlton, Hong Kong. The charge is shared with the Exchangeable Bondholders and the Convertible Bondholders of the LSD Group (collectively referred to as the “Bondholders”) on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the first charge over the shares of Surearn Profits Limited (“Surearn”) as mentioned below); and
- b. a first charge over LSD’s 100% indirect interest in Surearn, which owns a 65% equity interest of Diamond String, and, by way of security, an assignment of all shareholders’ loans owed by Surearn to the LSD Group. The charge and assignment are shared with the Bondholders on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million when aggregated with any sums recovered under the second charge over the shares of Diamond String as detailed above).

# Notes to Financial Statements

31st December, 2004

## 20. FILM RIGHTS

	<b>Group</b>
	HK\$'000
<hr/>	
Cost:	
At 1st January, 2004 and at 31st December, 2004	200,246
Accumulated amortisation:	
At 1st January, 2004	2,591
Provided during the year — note 9	<u>6,971</u>
At 31st December, 2004	<u>9,562</u>
Net book value:	
At 31st December, 2004	<u>190,684</u>
At 31st December, 2003	<u>197,655</u>

At 31st December, 2004, the film rights of the Group represented all rights, titles and interests in 127 films (the “127 Film Rights”) with an aggregate carrying value of HK\$190,570,000 (2003: HK\$197,541,000) and the television rights to another two films for a period of 10.5 years (the “2 TV Rights”) with an aggregate carrying value of HK\$114,000 (2003: HK\$114,000). The directors engaged Astoria Films Distribution Limited, an independent film distributor, to perform a valuation (the “Valuation”) on the 127 Film Rights as at 31st December, 2004. Having regard to the Valuation, which indicated that the fair value of the 127 Film Rights as at 31st December, 2004 was above their carrying value stated in the Group’s financial statements and having regard to the current market conditions, the directors are of the opinion that there was no impairment in the Group’s film rights as at 31st December, 2004.

## 21. SHORT TERM INVESTMENTS

	<b>Group</b>	
	2004	2003
	HK\$'000	HK\$'000
<hr/>		
Listed equity investments in Hong Kong, at market value	<u>22</u>	<u>83</u>

## 22. PROPERTIES HELD FOR SALE

The properties held for sale are stated at cost as at 31st December, 2004 and are pledged to secure against certain other borrowings of the Group (note 27).

# Notes to Financial Statements

31st December, 2004

## 23. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. An aged analysis of the trade debtors as at 31st December, 2004 is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade debtors:		
Less than 30 days	6,141	8,220
31–60 days	2,367	3,548
61–90 days	1,299	126
Over 90 days	9,589	7,648
	<u>19,396</u>	<u>19,542</u>
Other debtors and deposits	<u>43,846</u>	<u>18,524</u>
	<u>63,242</u>	<u>38,066</u>

The above aged analysis, stated net of provisions for doubtful debts, was prepared based on the dates when revenue is recognised from the trade transactions.

Included in trade debtors is an amount of HK\$719,000 (2003: HK\$1,384,000) due from the MAEG group, an associate of the Group, arising from the ordinary course of business of the Group.

## 24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	18,472	11,510	6,903	261
Time deposits	—	10,940	—	—
	<u>18,472</u>	<u>22,450</u>	<u>6,903</u>	<u>261</u>

# Notes to Financial Statements

31st December, 2004

## 24. CASH AND CASH EQUIVALENTS (continued)

At 31st December, 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$2,909,000 (2003: HK\$8,015,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB for other currencies through banks authorised to conduct foreign exchange business.

## 25. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at 31st December, 2004 is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade creditors:		
Less than 30 days	3,256	5,859
31–60 days	2,448	4,481
61–90 days	2,237	2,087
Over 90 days	<u>13,441</u>	<u>35,976</u>
	<b>21,382</b>	48,403
Other creditors and accruals	<u>87,332</u>	<u>21,975</u>
	<b><u>108,714</u></b>	<b><u>70,378</u></b>

The above aged analysis was prepared based on the dates of receipt of the goods and services purchased.

Included in trade creditors that aged over 90 days as at 31st December, 2003 was an amount of HK\$24,000,000 due to the MAH group, an associate of the Group, arising from the ordinary course of business of the Group.

Included in other creditors and accruals as at 31st December, 2004 is an amount of HK\$46,000,000 received from Lai Fung as earnest money paid for the participation rights in the Group's proposed residential property development project in Macau. Further details of the transaction are set out in the Company's circular dated 6th December, 2004. At the date of approval of these financial statements, the Group has been evaluating certain development plans of the residential properties.

# Notes to Financial Statements

31st December, 2004

## 26. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment. These leases are classified as finance leases and have remaining lease terms of approximately two years.

At 31st December, 2004, the total future minimum lease payments under finance leases and their present values, were as follows:

### Group

	<b>Minimum lease payments 2004 HK\$'000</b>	Minimum lease payments 2003 HK\$'000	<b>Present value of minimum lease payments 2004 HK\$'000</b>	Present value of minimum lease payments 2003 HK\$'000
Amounts payable:				
Within one year	44	44	41	35
In the second year	1	44	1	41
In the third to fifth years, inclusive	—	1	—	1
Total minimum finance lease payments	<u>45</u>	89	<u>42</u>	<u>77</u>
Future finance charges	<u>(3)</u>	<u>(12)</u>		
Total net finance lease payables	42	77		
Portion classified as current liabilities	<u>(40)</u>	<u>(35)</u>		
Non-current portion	<u>2</u>	<u>42</u>		

# Notes to Financial Statements

31st December, 2004

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Secured bank borrowings	25,000	24,000
Secured other borrowings	1,450	—
Unsecured other borrowings	163,521	45,200
	<u>189,971</u>	<u>69,200</u>
Bank borrowings repayable:		
Within one year	21,000	19,000
In the second year	4,000	5,000
	<u>25,000</u>	<u>24,000</u>
Other borrowings repayable:		
Within one year	149,971	45,200
In the second year	15,000	—
	<u>164,971</u>	<u>45,200</u>
	<u>189,971</u>	<u>69,200</u>
Portion classified as current liabilities	<u>(170,971)</u>	<u>(64,200)</u>
Non-current portion	<u>19,000</u>	<u>5,000</u>

The bank borrowings are secured by fixed charges over the Group's land and buildings with an aggregate net book value at the balance sheet date of approximately HK\$68,227,000 (2003: HK\$70,162,000) (note 15).

Secured other borrowings bear interest at a rate of 1% per month, are repayable within one year and are secured by the Group's properties held for sale (note 22).

# Notes to Financial Statements

31st December, 2004

## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Unsecured other borrowings bear interest at a rate of 1% per month and are repayable within one year, except for those as set out below:

- (i) an amount of HK\$15,000,000 which is not repayable within one year;
- (ii) an amount of HK\$120,938,000 which bears interest at the HSBC prime rate per annum and has no fixed terms of repayment.
- (iii) an amount of HK\$6,383,000 which is interest-free and has no fixed terms of repayment.

Included in the unsecured other borrowings as at 31st December, 2004 is an amount of HK\$127,321,000 due to an ex-director and ex-shareholder of the Company. The balance was reclassified from loans from directors (note 29) upon his retirement as the director of the Company during the year.

## 28. LOAN FROM A RELATED COMPANY

The loan is unsecured and interest-free, except for an amount of HK\$12,500,000 (2003: HK\$12,500,000) which bears interest at the HSBC prime rate per annum. During the year, the repayment date of the loan was extended to 31st December, 2006. A director of the Company is also a director of the related company.

## 29. LOANS FROM DIRECTORS

The balances are unsecured, interest-free, except for an amount of HK\$80,750,000 outstanding as at 31st December, 2003 which bore interest at the HSBC prime rate per annum, and have no fixed terms of repayment. The amount of HK\$82,099,000 as at 31st December, 2003 was reclassified to unsecured other borrowings during the year (note 27).

## 30. SHARE CAPITAL

### Shares

	2004		2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	<u>2,000,000</u>	<u>1,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	<u>671,185</u>	<u>335,592</u>	<u>671,185</u>	<u>335,592</u>

# Notes to Financial Statements

31st December, 2004

## 30. SHARE CAPITAL (continued)

Movements in the Company's issued ordinary share capital are summarised as follows:

	Number of ordinary shares '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st January, 2003	571,185	285,592	2,888,633	3,174,225
Shares issued as consideration for the acquisition of additional interest in an associate (note 18)	100,000	50,000	—	50,000
Share issue expenses	—	—	(364)	(364)
At 31st December, 2003, 1st January, 2004 and 31st December, 2004	<u>671,185</u>	<u>335,592</u>	<u>2,888,269</u>	<u>3,223,861</u>

### Share options

Details of the Company's share option scheme are included in note 31 to the financial statements.

75

## 31. SHARE OPTION SCHEME

The Company operates an employee share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible employees who contribute to the success of the Group's operations. Eligible employees of the Share Option Scheme include executive directors and other employees of the Company or any subsidiary. The Share Option Scheme was adopted by the Company on 25th November, 1996 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years.

No share options were outstanding as at 1st January, 2004 and 31st December, 2004. No share options were granted, exercised or cancelled or lapsed during the year. Subsequent to the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no further options may be granted under the Share Option Scheme unless such grant is made in compliance with the amended rules. As at the date of the annual report, no amended share option scheme has been adopted. The principal terms of the existing Share Option Scheme before amendment are:

- (a) The maximum number of shares of the Company (the "Shares") in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme will not, when aggregated with any Shares subject to any other schemes, exceed such number of Shares as shall represent 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the Share Option Scheme.

# Notes to Financial Statements

31st December, 2004

## 31. SHARE OPTION SCHEME (continued)

- (b) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.
- (c) An offer of the grant of an option shall remain open for acceptance by the employee concerned for a period of 28 days from the date upon which it is made. An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising the acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$10 by way of consideration for the grant thereof, is received by the Company. An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme and the conditions of the grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.
- (d) The subscription price shall be a price notified by the board of the Company to an employee being (i) not less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date; or (ii) the nominal value of the Shares, whichever is the higher.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

# Notes to Financial Statements

31st December, 2004

## 32. RESERVES

### Group

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2003		2,888,633	891,289	(2,243,508)	1,536,414
Share issue expenses	30	(364)	—	—	(364)
Exchange realignment		—	—	(17)	(17)
Release of exchange fluctuation reserve upon disposal of a subsidiary	33(c)	—	—	(72)	(72)
Net loss for the year		—	—	(92,707)	(92,707)
At 31st December, 2003 and 1st January, 2004		2,888,269	891,289	(2,336,304)	1,443,254
Exchange realignment		—	—	117	117
Net profit for the year		—	—	52,369	52,369
At 31st December, 2004		2,888,269	891,289	(2,283,818)	1,495,740
Retained by:					
Company and subsidiaries		2,888,269	891,289	(2,258,777)	1,520,781
Jointly-controlled entities		—	—	(8,742)	(8,742)
Associates		—	—	(16,299)	(16,299)
At 31st December, 2004		2,888,269	891,289	(2,283,818)	1,495,740
Company and subsidiaries		2,888,269	891,289	(2,279,918)	1,499,640
Jointly-controlled entities		—	—	(6,771)	(6,771)
Associates		—	—	(49,615)	(49,615)
At 31st December, 2003		2,888,269	891,289	(2,336,304)	1,443,254

Included in the debit balance of accumulated losses as at 31st December, 2004 are accumulated credit balances in respect of exchange realignment of HK\$20,034,000 (2003: HK\$19,917,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.

# Notes to Financial Statements

31st December, 2004

## 32. RESERVES (continued)

### Company

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2003		2,888,633	845,455	(2,288,884)	1,445,204
Share issues expenses	30	(364)	—	—	(364)
Net loss for the year		—	—	(99,572)	(99,572)
At 31st December, 2003 and 1st January, 2004		2,888,269	845,455	(2,388,456)	1,345,268
Net loss for the year		—	—	(52,228)	(52,228)
At 31st December, 2004		2,888,269	845,455	(2,440,684)	1,293,040

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation in November 1996, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

78

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transactions

- (i) As detailed in note 19 to the financial statements, part of the Debt of HK\$1,500,040,000 was satisfied by the Term Loan and the LSD Shares.
- (ii) During the prior year, the Company issued 100,000,002 ordinary shares of HK\$0.50 each as consideration for the acquisition of additional interest in an associate, as detailed in note 18 to the financial statements.
- (iii) During the prior year, loans from directors of HK\$5,000,000 and a loan from a related company of HK\$12,500,000 were applied to settle part of the consideration for the film rights acquired from the MAH group.
- (iv) During the prior year, the consideration for certain film rights acquired by the Group from the MAH group of HK\$6,000,000 was offset with an amount due from an associate.

# Notes to Financial Statements

31st December, 2004

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

### (b) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	—	323
Cash and bank balances	516	727
Inventories	—	2,590
Investment properties	29,000	—
Debtors and deposits	370	222
Creditors and accruals	(886)	(3,592)
Secured other borrowings	(28,700)	—
	<u>300</u>	<u>270</u>
Satisfied by:		
Cash	<u>300</u>	<u>270</u>

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(300)	(270)
Cash and bank balances acquired	<u>516</u>	<u>727</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>216</u>	<u>457</u>

The subsidiary acquired during the year contributed HK\$5,046,000 to the Group's consolidated profit after tax for the year ended 31st December, 2004. No turnover was contributed by that subsidiary during the year.

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

# Notes to Financial Statements

31st December, 2004

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

### (c) Disposal of a subsidiary

	Notes	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:			
Release of exchange fluctuation reserve		—	(72)
		—	(72)
Gain on disposal of a subsidiary	7, 16	—	10,361
		—	10,289
Satisfied by:			
Cash consideration received, net of expenses		—	10,289

Details of the results of the subsidiary disposed of during the prior year are included in note 7 to the financial statements.

## 34. LITIGATION

(a) In 1998, the Group disposed of its 50% interest in Delta Hotels Limited (“DHL”) to Canadian Pacific Hotels Corporation (the “Purchaser”). Under the terms of the sale and purchase agreement, C\$10 million of the sales proceeds was held in escrow (the “Holdback Funds”) pending the expiration of a warranty period.

The Purchaser also made an additional payment of C\$14.5 million that was held in escrow in respect of potential increases in the purchase price (the “Earnout Funds”).

The Purchaser made claims against the Holdback Funds in the prior year. C\$8 million of the Holdback Funds was released to the Group and the other owner (the “Vendors”) during 2000. The Vendors commenced an action (the “Action”) against the Purchaser for the remaining C\$2 million and the Purchaser issued a counterclaim for the C\$2 million.

Subsequently, the Action was expanded to include a claim by the Vendors for C\$2.5 million of the Earnout Funds which was in dispute.

The Action was settled in 2002 and in the same year, approximately C\$2.4 million was credited to the consolidated profit and loss account for the estimated recovery of the Holdback Funds and Earnout Funds.

During the year, the Group received no further claims from other parties and received an additional C\$1.7 million (approximately HK\$10,354,000) as the final settlement of the Holdback Funds and Earnout Funds. A net amount of approximately HK\$7,300,000 was credited to the consolidated profit and loss account for the current year.

# Notes to Financial Statements

31st December, 2004

## 34. LITIGATION (continued)

- (b) In 2002, a Writ of Summons was issued in the Court of First Instance by East Asia Entertainment Limited (“EAE”), a wholly-owned subsidiary of the Company, and Active Union Limited (“AUL”), a 70% owned subsidiary of the Company, against Australasian Entertainment Corporation Limited (“AEC”), the minority shareholder of AUL and other related parties claiming, inter alia, loss and damages (amounts to be assessed) suffered in holding an entertainment show known as “Spectaculum”. AEC counterclaimed the unsettled expenditure incurred in the show in the sum of approximately HK\$1,487,000. During the year, the Group instructed its solicitors to discontinue the proceedings as the directors understand that AEC has been wound up by creditors. The directors consider that neither the outstanding claim should have material adverse effect on the Group nor the Group would recover any amount from AEC. Accordingly, no provision was made for this claim at the balance sheet date.
- (c) On 23rd December, 2004, a Writ of Summons was issued in the Court of First Instance by Mr. Wong Ching Wa, Bangi (the “Claimant”) against EAE and other parties claiming, inter alia, the compensation against his personal injuries sustained in an accident on 2nd May, 2002 at Hong Kong Coliseum for approximately HK\$2 million. The Group acted as one of the organisers of “Sandy In Concert 2002” held at Hong Kong Coliseum at the time of the accident. On 7th February, 2005, EAE counterclaimed against the other parties, being the direct employer of the Claimant and the agent of the Group (the “Other Claimants”), to share the compensation payable to the Claimant by the Group.

The directors consider that the outstanding claim, if proven, will be shared by the Group and the Other Claimants and the amount to be payable by the Group should have no material adverse effect to the Group.

81

## 35. COMMITMENTS

- (a) Commitments not provided for in the financial statements of the Group at the balance sheet date were as follows:

	2004	2003
	HK\$'000	HK\$'000
Capital commitments contracted for	<u>36,633</u>	<u>21,979</u>

At 31st December, 2003, the Group committed to invest in the development of a television city with a programme production centre on a piece of land in Macau (the “Project”). During the year, the Group has changed its original plan of the Project and proposed to develop two hotels, a television city and certain residential properties which are subject to the approval of the Macau government for the change in use of land. It is estimated that the completion of the entire project will be delayed to beyond 2010. At 31st December, 2004, the Group was still in negotiation with the Macau government for the application and the authorised but not contracted for commitment in respect of the Project amounted to HK\$189,859,000 (2003: HK\$225,891,000).

# Notes to Financial Statements

31st December, 2004

## 35. COMMITMENTS (continued)

- (b) The Group leases certain of its office properties and a Macau production centre under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, and the lease term of the Macau production centre is for twenty five years.

At 31st December, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	2,689	2,289
In the second to fifth years, inclusive	4,163	4,213
After five years	<u>13,771</u>	<u>14,592</u>
	<u>20,623</u>	<u>21,094</u>

- (c) The Group has entered into an agreement to lease a satellite channel at an annual licence fee of US\$800,000 for a term of twelve years. At 31st December, 2004, the total future minimum lease payments were as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	6,234	6,207
In the second to fifth years, inclusive	24,938	24,826
After five years	<u>18,456</u>	<u>24,580</u>
	<u>49,628</u>	<u>55,613</u>

At the balance sheet date, the Company did not have any significant commitments.

# Notes to Financial Statements

31st December, 2004

## 36. CONTINGENT LIABILITIES

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

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD ( <i>Note</i> )	25,000	25,000	25,000	25,000
Guarantee given to a supplier in connection with credit facilities given to a subsidiary	—	—	2,000	2,000
	<u>25,000</u>	<u>25,000</u>	<u>27,000</u>	<u>27,000</u>

*Note:*

In connection with the Reorganisation Agreement described in note 19, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. ("GIGC") to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.

GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the "Land") on which the golf club is situated, which showed unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.

The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use rights certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK\$25,000,000. As at the date of this report, the land use rights referred to above had not been obtained by GIGC.

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15th April, 2005.

# 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 Harbour Room, 3/F., The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong on Tuesday, 31st May, 2005 at 10:00 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 December, 2004.
2. To re-elect Directors and to fix the Directors' remuneration.
3. To appoint Auditors and to authorise the Directors to fix their remuneration.
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 shares of 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 shares of 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 shares of 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 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 shares of the Company as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iii) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue to eligible participants under such scheme or arrangement of shares of the Company or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued 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 Members 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 or the Bye-laws of the Company to be held; and

“Rights Issue” means an offer of shares of the Company open for a period fixed by the Directors to the holders of 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 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*

85

Hong Kong, 15th April, 2005

**Notes:**

- (a) A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote in his stead in accordance with the Company’s Bye-laws. A proxy need not be a Member of the Company.
- (b) A form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with the Company’s Registrars in Hong Kong, Tengis Limited, at G/F, 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 adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. 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 adjourned meeting should they so wish.

## Notice of Annual General Meeting

- (c) Where there are joint holders of any share in the Company, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (d) Concerning item 2 of this Notice, Mr. Lam Kin Ngok, Peter, Madam U Po Chu and Mr. Liu Ngai Wing will retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election pursuant to Bye-law 87 of the Company's Bye-laws. Details of the above Directors are set out in the "Biographical Details of Directors", "Directors' Interests" and "Substantial shareholders' and Other Persons' Interests" sections of the 2004 Annual Report of the Company.
- (e) Item 4 of this Notice relates to the granting of a general mandate to the Directors of the Company to issue new shares of up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the said resolution. The Company has no immediate plans to issue new shares.
- (f) In accordance with the Company's Bye-laws, at any general meeting of members of the Company, a resolution shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:
- (i) the chairman of such meeting; or
  - (ii) at least three members present in person (hereinafter including in the case of a member being a corporation its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
  - (iii) a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
  - (iv) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.
- (g) This notice will also be available for viewing on the website of each of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> and the Company at <http://www.laisun.com>.