

# Notes to Financial Statements

31st July, 2000

## 19. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Bayshore Development Group Limited <sup>#</sup>	Corporate	British Virgin Islands/ Hong Kong	Ordinary	35.00	Property development
Besto Investments Limited <sup>#</sup>	Corporate	Hong Kong	Ordinary	18.59	Investment holding
Bushell Limited	Corporate	Hong Kong	Ordinary	50.00	Property investment
Coolala International Limited <sup>#</sup>	Corporate	Hong Kong	Ordinary	25.24	Operation of a website
Giant Riches Limited	Corporate	Hong Kong	Ordinary	50.00	Property development
Hankey Development Limited <sup>#</sup>	Corporate	Hong Kong	Ordinary	37.17	Investment holding
HKATV.com Limited <sup>#</sup>	Corporate	Hong Kong	Ordinary	25.24	Operation of a website
Kippford Enterprises Limited <sup>#</sup>	Corporate	Hong Kong	Ordinary	50.00	Property development
Media Asia Holdings Ltd. <sup>#</sup>	Corporate	British Virgin Islands/ Hong Kong	Ordinary	12.62	Provision and distribution of media content

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## 19. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Omicron International Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	43.50	Investment holding
P.S. Development Group of Companies Limited	Corporate	Thailand	Ordinary	49.00	Investment in and operation of hotels
Philippine Dream Company, Inc.	Corporate	Philippines	Common	36.00	Hotel investment
Sky Connection Limited	Corporate	Hong Kong	Ordinary	50.00	Retail

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# Audited by public accountants other than Ernst & Young.

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

The shares of certain associates held by the Group have been pledged to banks to secure banking facilities granted to the Group.

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## 19. INTERESTS IN ASSOCIATES (continued)

Included in the balance of "Share of net assets/(liabilities) other than goodwill" is interest capitalised of approximately HK\$140,215,000 (1999: HK\$134,083,000) on loans borrowed for investments in associates engaged in property development.

On 9th June, 2000, the Company announced that on the same day, the Company entered into a sale and purchase agreement with Mr. Lim Por Yen, a director of the Company, to dispose of a 33.33% equity interest in Lai Sun Textiles Company Limited ("Lai Sun Textiles"), representing the Group's entire interest held in Lai Sun Textiles, for a consideration of approximately HK\$30 million. The consideration was determined by reference to one-third of the adjusted net tangible asset value of Lai Sun Textiles, taking into account the valuation of the properties owned by Lai Sun Textiles, which was performed by an independent professional valuer as at 13th April, 2000. The proceeds from the disposal were used as working capital for the Group.

As at 9th June, 2000, the Lim Family beneficially interested in approximately 5.3% of the issued ordinary share capital of the Company. The transaction constituted a connected transaction of the Company. The transaction was completed on 30th June, 2000.

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	58,423	145,333
Amounts due from jointly controlled entities	—	44,276
Amounts due to jointly controlled entities	(8,296)	(1,037)
	<u>50,127</u>	<u>188,572</u>

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

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## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

Details of the jointly controlled entities are as follows:

Name of company	Business structure	Place of registration	Registered capital	Equity interest	Profit sharing	Principal activities
Qingyuan Grace Snow Properties Ltd.	Corporate	People's Republic of China	US\$36,000,000	53.63%	53.63%	Property development
Zhong Shan Li Shan Properties Development Limited	Corporate	People's Republic of China	RMB75,000,000	37.25%	37.25%	Property development

Included in the balance of "Share of net assets" of jointly controlled entities is interest capitalised of approximately HK\$18,503,000 (1999: HK\$18,503,000) on borrowings for investments in jointly controlled entities engaged in property development.

## 21. LONG TERM INVESTMENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Listed investments in securities, at cost:				
Hong Kong	173,199	—	—	—
Elsewhere	—	5,000	—	5,000
	<u>173,199</u>	<u>5,000</u>	<u>—</u>	<u>5,000</u>
Unlisted investments in securities, at cost	295,018	342,625	22,960	21,932
Advances to investees	827,543	789,027	500,805	461,104
Less: provisions for impairment in values	(276,850)	(118,263)	(84,263)	(18,263)
	<u>845,711</u>	<u>1,013,389</u>	<u>439,502</u>	<u>464,773</u>
	<u>1,018,910</u>	<u>1,018,389</u>	<u>439,502</u>	<u>469,773</u>
Market value of listed investment at balance sheet date	319,600	2,926	—	2,926

# Notes to Financial Statements

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## 22. LONG TERM NOTE RECEIVABLE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Note receivable	1,100,000	1,100,000
Less: provision for diminution in value	<u>(1,100,000)</u>	<u>(855,000)</u>
	<u>—</u>	<u>245,000</u>

On 18th December, 1997, a sale and purchase agreement (the “Majestic Agreement”) was entered into between Furama and independent third parties (the “Majestic Purchasers”) pursuant to which Furama agreed to sell the entire issued share capital of Fortune Sign Venture Inc. (“Fortune Sign”), a then wholly-owned subsidiary of Furama, and to assign the shareholder’s loan due from Fortune Sign of approximately HK\$82 million to the Majestic Purchasers for a total consideration of HK\$2,030 million. The major assets held by Fortune Sign are two properties, namely the Majestic Hotel and the Majestic Centre (the “Majestic Properties”), which are situated in Hong Kong. The transaction was satisfied by cash of HK\$930 million and a note of HK\$1,100 million (the “Note”).

In accordance with the terms of the Majestic Agreement, the Note is interest-free, repayable on the earlier of 31st March, 2001, or the lapse of the Put Options as detailed in note 36(f), and is secured by a charge over the Majestic Properties.

In the opinion of the directors, due to the diminution in value of the Majestic Properties, the Majestic Purchasers are likely to exercise the Put Options. Accordingly, the Note receivable is stated at its estimated net realisable value as at 31st July, 2000.

# Notes to Financial Statements

31st July, 2000

## 23. DEFERRED TAX ASSETS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At beginning of year	216	(1,130)	—	—
Arising on disposal of subsidiaries	—	(4,096)	—	—
Tax (note 10)	500	5,403	—	—
Exchange realignment	33	39	—	—
At end of year	<u>749</u>	<u>216</u>	<u>—</u>	<u>—</u>

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

### Group

	Provided		Not provided	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Decelerated/(accelerated) capital allowances on fixed assets	(630)	(1,130)	35,998	(7,106)
Tax losses	1,379	1,346	42,663	51,941
Revaluation of investment properties in the PRC	—	—	(252,544)	(255,410)
Revaluation of properties under development in the PRC	—	—	(818,589)	(592,942)
Other timing differences	—	—	—	(952)
	<u>749</u>	<u>216</u>	<u>(992,472)</u>	<u>(804,469)</u>

### Company

	Provided		Not provided	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accelerated capital allowances on fixed assets	—	—	—	(1,495)

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

# Notes to Financial Statements

31st July, 2000

## 23. DEFERRED TAX ASSETS (continued)

The unprovided deferred tax liabilities at the balance sheet date arise from the revaluation of the Group's investment properties and properties under development in the PRC in respect of land appreciation tax ("LAT") and income tax are set out above. In the opinion of the directors, the deferred tax liabilities are not expected to crystallise in the foreseeable future since the Group has no intention to dispose of these revalued properties.

Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung, the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income taxes and 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 ("Property Interests"). These tax indemnities given by the Company apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited as at 31st October, 1997 (the "Valuation"), and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The indemnity deeds assume that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on the Stock Exchange of Hong Kong Limited (the "Listing"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997.

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

## 24. SHORT TERM INVESTMENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
<hr/>		
Listed equity investments, at market value:		
Hong Kong	3,402	33,753
Elsewhere	641	—
	<hr/>	<hr/>
	4,043	33,753
Unlisted equity investments, at fair value	7,841	9,834
	<hr/>	<hr/>
	11,884	43,587
	<hr/>	<hr/>

# Notes to Financial Statements

31st July, 2000

## 25. COMPLETED PROPERTIES FOR SALE

The completed properties for sale carried at net realisable value included in the total balance in the Group's balance sheet, amounted to HK\$379,969,000 (1999: HK\$186,478,000).

Certain completed properties for sale with carrying value amounting to HK\$368,900,000 were pledged to banks to secure banking facilities granted to the Group.

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

(1) The Group maintains a defined credit policy. Details of the debtors and deposits of the Group and the Company as at 31st July, 2000 are as follows:

	Group HK\$'000	Company HK\$'000
Trade debtors:		
Less than 30 days	56,516	4,381
31 – 60 days	5,846	158
61 – 90 days	5,903	89
Over 90 days	33,669	1,073
	101,934	5,701
Other debtors and deposits	769,806	335,732
	871,740	341,433

(2) Details of the creditors, deposits received and accruals of the Group and Company as at 31st July, 2000 are as follows:

	Group HK\$'000	Company HK\$'000
Trade creditors:		
Less than 30 days	141,962	534
31 – 60 days	11,103	395
61 – 90 days	4,815	67
Over 90 days	93,582	121
	251,462	1,117
Other creditors, deposits received and accruals	838,272	122,764
	1,089,734	123,881



# Notes to Financial Statements

31st July, 2000

## 27. PLEDGED CASH AND BANK BALANCES

As at 31st July, 2000, approximately HK\$39,106,000 of cash and bank balances of the Group and of the Company were pledged to banks to secure a syndicated loan facility granted to the Group. In previous year, approximately HK\$8,055,000 of cash and bank balances of the Group were pledged to banks to secure mortgage loans granted by banks to certain end-buyers of the Group's completed properties for sale. The pledges of such balances were released during the year as the relevant mortgage arrangements were completed.

## 28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and bank balances	301,568	399,410	14,036	19,055
Time deposits, unpledged	402,005	371,022	139,391	304,261
	<u>703,573</u>	<u>770,432</u>	<u>153,427</u>	<u>323,316</u>

# Notes to Financial Statements

31st July, 2000

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts:				
Secured	197,762	—	197,762	—
Unsecured	86	—	—	—
	<u>197,848</u>	<u>—</u>	<u>197,762</u>	<u>—</u>
Bank loans:				
Secured	4,416,391	6,223,210	1,938,210	2,263,985
Unsecured	2,693	4,688	—	—
	<u>4,419,084</u>	<u>6,227,898</u>	<u>1,938,210</u>	<u>2,263,985</u>
Other loans:				
Secured	23,505	—	—	—
Unsecured	—	1,875	—	—
	<u>23,505</u>	<u>1,875</u>	<u>—</u>	<u>—</u>
Obligations under finance leases	<u>—</u>	<u>143</u>	<u>—</u>	<u>—</u>
	4,640,437	6,229,916	2,135,972	2,263,985
Portion due within one year or on demand classified as current liabilities	<u>(2,064,547)</u>	<u>(3,105,637)</u>	<u>(1,735,972)</u>	<u>(1,482,867)</u>
Long term portion	<u>2,575,890</u>	<u>3,124,279</u>	<u>400,000</u>	<u>781,118</u>
The long term portion of bank and other borrowings is repayable within periods of:				
More than one year but not exceeding two years	357,603	1,096,994	—	659,264
More than two years but not exceeding five years	2,218,287	1,996,185	400,000	90,754
More than five years	—	31,100	—	31,100
	<u>2,575,890</u>	<u>3,124,279</u>	<u>400,000</u>	<u>781,118</u>

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

# Notes to Financial Statements

31st July, 2000

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

Details of the secured other loan are disclosed in note 18(4) to the financial statements. In the previous year, the unsecured other loan was interest-bearing with interest charged at 7.67% per annum and was repayable within one year.

As a result of the Group's losses and the Group's prevailing financial position, certain financial covenants specified in certain bank loan agreements were not maintained as at 31st July, 2000. The relevant lending banks had indicated their support to the debt restructuring proposal as stated in note 3, and that no early loan repayment would be demanded by them in respect of any breach or default which had or may have occurred under, or in connection with, the bank loan agreements.

## 30. BONDS PAYABLE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Exchangeable Bonds	891,250	891,250
Portion due within one year classified as current liabilities	<u>(155,397)</u>	<u>—</u>
Long term portion	<u>735,853</u>	<u>891,250</u>

US\$115,000,000 exchangeable bonds (the "Exchangeable Bonds") were issued on 28th February, 1997 by a wholly-owned subsidiary of the Company, Lai Sun International Finance (Cayman Islands) Limited (the "Issuer"). The Exchangeable Bonds are unconditionally and irrevocably guaranteed by the Company.

The Exchangeable Bonds bear interest from 24th February, 1997 at the rate of 5% per annum. Interest is payable semi-annually in arrears on 28th February and 28th August in each year.

Unless previously repaid, redeemed, converted or purchased and cancelled, the Exchangeable Bonds are, at the option of the holders (the "Exchangeable Bondholders"), exchangeable for a pro rata share of the Exchange Property (as defined below) on or after the date which falls 90 days after the IPO listing date of Asia Television Limited ("ATV") as defined in the related bond document (the "Bond Document"), up to and including 30th January, 2004 or, if the Exchangeable Bonds have been called for redemption before then, up to the close of business on a date not later than five business days prior to the date fixed for redemption thereof. Upon electing the exchange, each Exchangeable Bondholder shall have the right (the "Exchange Right") to require the redemption of all or any of its Exchangeable Bonds at their Early Redemption Price as defined in the Bond Document and have that amount applied on its behalf in acquiring a pro rata share of such number of the equity shares in the capital of ATV which represents one-sixth of the total shares outstanding as at the IPO listing date from time to time for exchange (the "Exchange Property").

# Notes to Financial Statements

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## 30. BONDS PAYABLE (continued)

Unless previously redeemed, purchased and cancelled or exchanged, the Exchangeable Bonds will be redeemed at 142.9171% of their principal amount (the "Maturity Redemption Price") on 28th February, 2004. The Exchangeable Bonds may also be redeemed at the option of the Exchangeable Bondholders on 8th June, 2001 at 120.6984% of the principal amount in the event that either ATV's current licence to broadcast is not renewed, or a complying IPO as defined in the Bond Document has not occurred on or before 1st June, 2001 (the "Conditional Redemption"). The Exchangeable Bonds may also be redeemed at the option of the holders on 28th February, 2002 at 125.4520% of their principal amount (the "Unconditional Redemption"). The Exchangeable Bonds may also be redeemed at any time during the period from 28th February, 1997 to 28th February, 2004 upon the occurrence of any of certain other events as defined in the Bond Document at various pre-determined prices ranging from 100% of the principal amount to the Maturity Redemption Price.

The Bond Document was subsequently modified by extraordinary resolutions (the "EB Extraordinary Resolutions") passed by the Exchangeable Bondholders on 4th August, 2000. The major modifications to the terms and conditions included in the Bond Document are set out below:

- (1) 15% of the outstanding principal amount at 4th August, 2000 will be repayable on or before 31st August, 2000;
- (2) a further amount will be payable to the Exchangeable Bondholders and Convertible Bondholders (as defined in note 33), on a pari passu and pro rata basis, of the higher amount of the total proceeds from the sales of the SUNDAY Shares (as defined below) or HK\$50 million to be made on or before 31st January, 2001;
- (3) the Exchangeable Bondholders will share, on a pari passu and pro rata basis, with the Convertible Bondholders the security of the following:
  - (a) a first charge over the Company's 50 million shares in SUNDAY Communication Limited (the "SUNDAY Shares");
  - (b) a first charge over 130 million shares of HK\$0.25 each in the issued share capital of ATV beneficially owned by the Company (subject to the Exchangeable Bondholders' existing Exchange Right); and
  - (c) a second charge over 951,709,306 shares of HK\$0.10 each in the issued share capital of eSun beneficially owned by the Company;
- (4) The Exchangeable Bondholders will also share, on a pari passu and pro rata basis, with the Convertible Bondholders and eSun (the "Parties"), the following security:
  - (a) a limited recourse second charge over 6,500 shares of HK\$1.00 each in the issued share capital of Diamond String Limited (which owns the Ritz-Carlton Hong Kong Hotel) beneficially owned by the Company; and