Notes to Financial Statements

31st July, 2003

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION

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

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

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

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

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

Notes to Financial Statements

31st July, 2003

2. BASIS OF PRESENTATION (continued)

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

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

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

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

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs which have had a significant effect on the financial statements are summarised as follows:

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

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

Notes to Financial Statements

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3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (continued)

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and short term investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Notes to Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

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

Certain interests on loans borrowed for investments in associates engaged in property development is capitalised in the Group's share of the net assets of the associates.

Goodwill

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

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

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Notes to Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

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

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

Fixed assets and depreciation

No depreciation is provided for hotel and investment properties. Other fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Properties under development

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

Notes to Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is estimated by the directors based on prevailing market conditions. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by apportionment of the total land and building costs attributable to unsold properties.

Long term investments

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

Short term investments

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

Inventories

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

Provisions

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

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

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

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

Notes to Financial Statements

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of completed properties developed for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the Hong Kong Government or a completion certificate by the relevant government authorities, whichever is later;

(b) from the sale of investment properties, when all the conditions of a sale have been met and the risks and rewards of ownership have been transferred to the buyer;

(c) rental and property management fee income, in the period in which the properties are let out and on the straight-line basis over the lease terms;

(d) from hotel and restaurant operations and other related service income, in the period in which such services are rendered;

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(f) dividend income, when the shareholders' right to receive payment has been established.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the weighted average of the attributable borrowing cost of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

Foreign currencies

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

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

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

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments (continued)

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

Retirement benefits

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

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

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

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

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

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits (continued)

In addition, the Group also operates defined contribution Mandatory Provident Fund retirement benefits schemes (the "MPF Schemes") under the Mandatory Provident Fund Schemes Ordinance and defined contribution retirement schemes (the "Contribution Schemes") for those employees who are eligible to participate in the respective scheme. The assets of the schemes are held separately from those of the Group in the respective independently administered funds. Contributions to the MPF Schemes and the Contribution Schemes are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the respective scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes, while under the Contribution Schemes, when an employee leaves the scheme prior to his/her interest in the Group's contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

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

5. SEGMENT INFORMATION

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

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

(a) the property development and sales segment engages in property development and sale of properties;

(b) the property investment segment comprises leasing of and sale of investment properties;

(c) the hotel and restaurant operations segment engages in the operation of hotels and restaurants; and

(d) the others segment comprises the Group's property management services business, which provides property management and security services to residential, office, industrial and commercial properties.

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

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

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5. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

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

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

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

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

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

Notes to Financial Statements

31st July, 2003

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group

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

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.

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

Notes to Financial Statements

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6. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The interest income from associates arose from advances made thereto. Interest was charged at the prevailing market rates.

(ii) The terms of the interest paid or payable to GPEL are detailed in note 19 to the financial statements.

(iii) Rental income was received from a subsidiary of the Company's controlling shareholder, and was based on terms stated in the lease agreement.

(iv) The rental expenses were paid to an associate and were based on terms stated in the lease agreement.

7. TURNOVER

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

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

Notes to Financial Statements

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8. PROFIT FROM OPERATING ACTIVITIES

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

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

Notes to Financial Statements

31st July, 2003

8. PROFIT FROM OPERATING ACTIVITIES (continued)

* At 31st July, 2003, no forfeited contributions from the Contribution Schemes were available to the Group to reduce its contributions to the Contribution Schemes in future years (2002: Nil).

The comparative pension scheme cost amount for the year ended 31st July, 2002 was calculated using the previous accounting policy applied before SSAP 34 was adopted during the current year, and so is not directly comparable with the amount for the current year. The current and previous accounting policies are explained under the heading "Employee benefits: Retirement benefits" in note 4 to the financial statements.

9. PENSION SCHEME ASSETS

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

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

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

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

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

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9. PENSION SCHEME ASSETS (continued)

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

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

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

	Note	2003 HK$'000
Current service cost		(119)
Interest cost on defined benefit obligation		(73)
Expected return on pension scheme assets		761
	9(b)	569
Actual return on scheme assets		739

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

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

	2003 %
Discount rate	4.5 — 5.0
Expected rate of return on pension scheme assets	5.0 — 7.0
Future salary increases	3.5 — 5.0

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31st July, 2003

9. PENSION SCHEME ASSETS (continued)

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

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

10. FINANCE COSTS

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

Notes to Financial Statements

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11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

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

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

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

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

	Number of directors	
	2003	2002
Nil to HK$1,000,000	7	7
HK$1,000,001 to HK$1,500,000	—	1
HK$2,000,001 to HK$2,500,000	—	1
HK$3,000,001 to HK$3,500,000	2	—
HK$3,500,001 to HK$4,000,000	—	2
HK$14,000,001 to HK$14,500,000	1	—
HK$14,500,001 to HK$15,000,000	—	1
	10	12

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

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(b) Employees' remuneration

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

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

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

	Number of employees	
	2003	2002
HK$2,000,001 to HK$2,500,000	1	—
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	1
	2	1

Notes to Financial Statements

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12. TAX

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

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

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

13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$461,040,000 (2002: HK$1,941,508,000) and the weighted average number of 3,746,002,000 (2002: 3,746,002,000) ordinary shares in issue during the year.

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

Notes to Financial Statements

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15. FIXED ASSETS

Group

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

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

Notes to Financial Statements

31st July, 2003

15. FIXED ASSETS (continued)

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

	Hong Kong HK$'000	Elsewhere HK$'000	Total HK$'000
At cost:			
Medium term leases	1,721,425	542,187	2,263,612
Long term leases	30,753	—	30,753
	1,752,178	542,187	2,294,365

Company

	1st August, 2002 HK$'000	Additions HK$'000	Disposals HK$'000	31st July, 2003 HK$'000
Cost:				
Leasehold land and buildings	10,532	—	(1,885)	8,647
Leasehold improvements	17,775	807	(255)	18,327
Furniture, fixtures and equipment	47,877	591	(15,631)	32,837
Motor vehicles	17,205	2,248	(2,850)	16,603
Computers	691	20	—	711
	94,080	3,666	(20,621)	77,125
Accumulated depreciation:				
Leasehold land and buildings	5,013	346	(377)	4,982
Leasehold improvements	14,549	1,887	(71)	16,365
Furniture, fixtures and equipment	43,878	1,319	(15,628)	29,569
Motor vehicles	12,013	2,675	(2,850)	11,838
Computers	466	125	—	591
	75,919	6,352	(18,926)	63,345
Net book value	18,161			13,780

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

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

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16. INVESTMENT PROPERTIES

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

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

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Long term leases	890,000	1,037,000	—	—
Medium term leases	3,613,410	3,950,860	2,141,700	2,488,500
	4,503,410	4,987,860	2,141,700	2,488,500

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

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

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

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17. PROPERTIES UNDER DEVELOPMENT

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

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

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

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

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

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18. INTERESTS IN SUBSIDIARIES

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

Particulars of the principal subsidiaries are as follows:

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

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18. INTERESTS IN SUBSIDIARIES (continued)

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

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

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18. INTERESTS IN SUBSIDIARIES (continued)

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

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

* These subsidiaries have registered rather than issued share capital.

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

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

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18. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

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

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

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

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

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

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19. INTERESTS IN ASSOCIATES

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

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

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

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

Notes to Financial Statements

31st July, 2003

19. INTERESTS IN ASSOCIATES (continued)

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

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

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

Particulars of the principal associates are as follows:

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

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19. INTERESTS IN ASSOCIATES (continued)

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

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

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

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

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

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31st July, 2003

19. INTERESTS IN ASSOCIATES (continued)

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

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

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

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

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

19. INTERESTS IN ASSOCIATES (continued)

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

eSun Group*

	As at 30th June, 2003 HK$'000
Non-current assets	1,867,712
Current assets	66,934
Current liabilities	(109,561)
Non-current liabilities	(60)
Minority interests	(206)
	1,824,819
Contingent liabilities	
Guarantees given to the Company in connection with the disposal of an associate to the Company in prior years	25,000

	Six months ended 30th June, 2003 HK$'000
Turnover	49,755
Loss before tax	(46,713)
Tax	(8)
Net loss from ordinary activities attributable to shareholders	(46,721)

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

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31st July, 2003

19. INTERESTS IN ASSOCIATES (continued)

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

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

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

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

Notes to Financial Statements

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20. LONG TERM INVESTMENTS

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

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

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

21. LONG TERM NOTE RECEIVABLE

	Group	
	2003	2002
	HK$'000	HK$'000
Note receivable	—	1,100,000
Provision for impairment	—	(1,100,000)
	—	—

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

Notes to Financial Statements

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22. LONG TERM PREPAYMENT

	Group	
	2003	2002
	HK$'000	HK$'000
Prepayment	—	280,000
Provision for impairment	—	(86,000)
	—	194,000

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

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

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

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

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

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

24. SHORT TERM INVESTMENTS

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

25. COMPLETED PROPERTIES FOR SALE

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

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

Notes to Financial Statements

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

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

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

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

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

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

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

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

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

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28. PROVISION FOR PREMIUM ON BONDS REDEMPTION

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

29. PROVISION FOR PREMIUM ON LOAN REPAYMENT

	Group HK$'000
At 1st August, 2002	52,500
Provided during the year	21,042
Repaid during the year	(46,667)
At 31st July, 2003	26,875

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

30. BONDS PAYABLE

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

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

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30. BONDS PAYABLE (continued)

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

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

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

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

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

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31st July, 2003

30. BONDS PAYABLE (continued)

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

31. CONVERTIBLE BONDS PAYABLE

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

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

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

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

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31. CONVERTIBLE BONDS PAYABLE (continued)

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

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

32. DEFERRED TAX

	Group	
	2003	2002
	HK$'000	HK$'000
At beginning of year	(380)	(380)
Arising on acquisition of subsidiaries (note 35(b))	(5,065)	—
Write back for the year (note 12)	380	—
At end of year	(5,065)	(380)

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

Group

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

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

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

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33. SHARE CAPITAL

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

34. RESERVES

(a) Group

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

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

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

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

Notes to Financial Statements

31st July, 2003

34. RESERVES (continued)

(b) Company

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

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

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

(i) As detailed in note 19 to the financial statements, the reduction of indebtedness owing to Grand Design of HK$463,334,000 was settled by means of a transfer of a 20% interest in Bayshore and the assignment of shareholders' loans plus accrued interest, and therefore had no effects on the Group's cash flows.

(ii) As detailed in note 18 to the financial statements, the consideration for the acquisition of Fortune Sign was partly set off by the Note Receivable (note 21), and therefore had no effect on the Group's cash flows.

Notes to Financial Statements

31st July, 2003

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

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

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

(i) the Company agreed to sell, and LSG agreed to purchase, 779,958,912 ordinary shares of Lai Fung (the "Lai Fung Transaction"), which represented approximately 25.40% of the then existing issued share capital of Lai Fung and the Company's then entire shareholding interest in Lai Fung. The consideration of the Lai Fung Transaction was satisfied by the execution and delivery by LSG to the Company, on the completion of the transaction, a loan note in an aggregate principal amount of HK$225,200,000 (the "LSG Loan Note");

(ii) Mr. Lim agreed to sell, and LSD agreed to purchase, 125,450,000 ordinary shares in the capital of ATV, which represented approximately 16.08% of the then existing issued share capital of ATV (the "Lim Transaction") for a consideration of HK$225,200,000; and the Company agreed to assign to Mr. Lim (or his nominee) its rights and benefits in respect of the LSG Loan Note to satisfy the consideration payable by the Company to Mr. Lim in respect of the Lim Transaction (the "Assignment of Debt").

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

(b) Acquisition of subsidiaries

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

Notes to Financial Statements

31st July, 2003

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

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

	2003 HK$'000	2002 HK$'000
Cash consideration	556,000	—
Cash and bank balances acquired	(7,927)	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	548,073	—

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

(c) Disposal of subsidiaries

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

Notes to Financial Statements

31st July, 2003

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

(c) Disposal of subsidiaries (continued)

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

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

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

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

36. COMMITMENTS

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

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Capital commitments:				
Contracted for	—	27,234	—	—
Authorised, but not contracted for	2,724	2,980	—	—
	2,724	30,214	—	—

37. CONTINGENT LIABILITIES

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

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

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

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

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37. CONTINGENT LIABILITIES (continued)

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

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

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

(b) As lessee

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

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

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

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39. POST BALANCE SHEET EVENTS

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

(i) On 29th July, 2003, an agreement for sale and purchase was entered into by the Company and an independent third party, pursuant to which the Company agreed to dispose of Lai Sun Yuen Long Centre ("LSYLC") for a consideration of HK$89,500,000. As at 31st July, 2003, LSYLC was classified as investment property and stated at the valuation of HK$89,500,000 which resulted in a revaluation deficit of HK$8,339,000. Such deficit was included in the Company's consolidated investment property revaluation reserve at the balance sheet date. Upon the completion of such transaction on 6th August, 2003, the loss on disposal of LSYLC was approximately HK$8,339,000.

(ii) On 6th August, 2003, an agreement for sale and purchase was entered into by the Company and various parties, pursuant to which the Company agreed to dispose of its entire shareholding in Omicron International Limited, ("Omicron"), a 43.5% owned associate of the Group, together with its loan to Omicron with an aggregate carrying value of HK$65,509,000, for HK$35,000,000. The transaction was completed on 14th August, 2003. An impairment loss of HK$30,509,000 on the Group's interest in an associate was made and recorded in the Group's current year profit and loss account to reflect the impairment of the Group's interest in Omicron with reference to its subsequent disposal price.

(iii) On 18th August, 2003, Lucky Strike Investment Limited, a wholly-owned subsidiary of the Company, received and accepted a private tender offer ("Tender") from Wing On Properties and Securities Company Limited to sell Causeway Bay Plaza 1 ("CBP1") for a cash consideration of HK$1,200,000,000. As at 31st July, 2003, CBP1 was classified as investment property and stated at the valuation by an independent professional valuer of HK$1,220,000,000 which resulted in a revaluation deficit of HK$252,973,000 and such deficit was included in the Company's consolidated investment property revaluation reserve. Upon the completion of such transaction on 23rd October, 2003, the Group will record a loss of HK$272,973,000 and negative goodwill attributable to CBP1 of HK$149,983,000 will also be released from the Group's accumulated losses to the credit of the consolidated profit and loss account with a compensatory effect.

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

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