

Notes to the Accounts

31st July, 2000

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of accounting

These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and properties under development held for investment potential.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries for the year ended 31st July, 2000. 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost unless, in the opinion of the directors, there have been diminution other than temporary in values, in which case they are written down to values determined by the directors. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associated companies

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long-term interest of 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 associated companies is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associated companies are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting less any provisions for diminution in values, other than temporary in nature, deemed necessary by the directors, plus goodwill arising on the acquisition of interests in the associated companies in so far as it has not already been written off or amortised.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)**(e) Jointly controlled entities**

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other form of entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that contractual arrangements between the venturers establish joint control over the economic activities of the entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratios are different from the Group's equity interests therein, the share of post-acquisition results of the jointly controlled entities is determined based on the agreed profit sharing ratios. The Group's interest in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminution in values, other than temporary in nature, deemed necessary by the directors.

(f) Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associated companies represents the excess of the purchase consideration paid for subsidiaries or associated companies over the fair values ascribed to the net underlying assets acquired at the date of acquisition. Goodwill arising on the acquisition of associated companies is amortised on the straight-line basis over a period of forty years. Goodwill arising on the acquisition of subsidiaries is eliminated against reserves at the time of acquisition.

(g) Capital reserve

The capital reserve arising on consolidation of subsidiaries and on acquisition of associated companies represents the excess of the fair values ascribed to the net underlying assets of subsidiaries or associated companies acquired at the date of acquisition over the purchase consideration paid for subsidiaries or associated companies.

(h) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

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 the 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 the fixed assets.

Notes to the Accounts

31st July, 2000

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Fixed assets and depreciation (continued)

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

Leasehold improvements	20%
Furniture, fixtures and equipment	18%–20%
Motor vehicles	18%–25%
Computers	18%–25%

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

(i) 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. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment properties 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.

Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

(j) Properties under development

- (a) Properties under development held for investment potential are stated at their open market values on the basis of annual professional valuations.

Changes in the values of such properties under development which have been revalued are dealt with as movements in the revaluation reserve of properties under development for investment potential. 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. On completion, the properties are transferred to investment properties.

Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of a property under development which has been revalued, the relevant portion of the revaluation reserve of properties under development held for investment potential realised in respect of previous valuations is released to the profit and loss account.

Notes to the Accounts

31st July, 2000

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Properties under development (continued)

- (b) Properties under development held for other than investment potential are stated at cost less any provisions for diminution other than temporary in values considered necessary by the directors, if pre-sale of properties has not commenced.

Where pre-sale of properties has commenced, properties under development held for other than investment potential are stated at cost plus attributable profits (recognised on the basis set out in note 1 (m)(b)) less sales instalments received and receivable.

Cost of properties in the course of development comprises land cost, fees for land use rights, construction costs, financing and other related expenses capitalised during the development period.

(k) Completed properties developed for sale

Completed properties developed 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 is determined by an apportionment of the total land and building costs attributable to unsold properties.

(l) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the profit and loss account on a straight-line basis over the lease term.

(m) 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) sale of completed properties developed for sale is recognised upon the establishment of a binding contract in respect of the sale of properties or upon the issue of a completion certificate by the relevant government authorities, whichever is later;
- (b) the recognition of revenues and profits from pre-sales of properties under development commences when a binding contract in respect of the sale of properties has been executed. The revenues and profits recognised in a year are a proportion of the total revenues and profits expected on completion, the proportion used being the lower of:
- (i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and
- (ii) the proportion of the actual cash received to the total sales consideration.

where purchasers fail to pay the balances of the purchase price on completion and the Group exercises its right to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profits and any profits recognised so far are reversed;

Notes to the Accounts

31st July, 2000

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

- (c) rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease term;
- (d) interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rate applicable; and
- (e) management fee income is recognised when services are rendered.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale (“qualifying asset”) are capitalised as part of the cost of the asset. The capitalisation rates for the year are based on the specific attributable borrowing costs of the borrowings. Investment income earned on funds borrowed for the purpose of obtaining a qualifying asset is deducted from the attributable borrowing costs incurred. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Pension costs

The Group operates a defined contribution pension scheme for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions to the scheme are made based on a percentage of the eligible employees’ salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to vesting fully in the employer contributions, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

(p) Foreign currencies

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

On consolidation, the accounts of subsidiaries, associated companies and jointly controlled entities operating outside Hong Kong are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(q) Deferred taxation

Deferred taxation 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 until its realisation is assured beyond reasonable doubt.

Notes to the Accounts

31st July, 2000

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(s) 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 decision. Parties are also considered to be related if they are subject to common control or common significant influence.

2. RELATED PARTY TRANSACTIONS

In addition to the related party transactions detailed elsewhere in the accounts, the Group had the following material transaction with a related party during the year.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest income received from an associated company	26,646	25,457

Interest is charged on advance to an associated company at the Hong Kong prime lending rate plus 2% per annum. Details of the advance, including the terms and security, are included in note 18.

Notes to the Accounts

31st July, 2000

3. REVENUES AND TURNOVER

The Group is principally engaged in property development and property investment. Turnover comprises proceeds from the sales of completed properties developed for sale, the pre-sales of properties under development and rental income from investment properties. Revenues recognised during the year are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Turnover		
Sales of completed properties developed for sale	134,639	22,399
Pre-sales of properties under development	—	60,856
Rental income from investment properties	56,954	51,935
	<u>191,593</u>	<u>135,190</u>
Other revenues		
Management fee income	14,610	12,991
Interest income from		
Bank deposits	5,281	6,056
An associated company	26,646	25,457
Others	5,038	10,632
	<u>51,575</u>	<u>55,136</u>
Total revenues	<u>243,168</u>	<u>190,326</u>

4. OTHER OPERATING (EXPENSES)/INCOME, NET

	Group	
	2000 HK\$'000	1999 HK\$'000
Other operating (expenses)/income, net, included the following operating (expenses)/income:		
Gain on disposal of a jointly controlled entity	6,610	—
Profit on repurchase of convertible guaranteed bonds	—	40,675
Loss on disposal of unlisted investments	—	(17,100)
Provision for completed properties developed for sale to net realisable value	(10,500)	(4,573)
Provision for properties under development held for other than investment potential	(127)	(9,527)
	<u>(4,017)</u>	<u>9,475</u>

Notes to the Accounts

31st July, 2000

5. OPERATING PROFIT/(LOSS)

	Group	
	2000 HK\$'000	1999 HK\$'000
This is arrived at after charging:		
Auditors' remuneration		
— current year	550	609
— underprovision in prior year	200	—
Cost of completed properties developed for sale recognised	145,907	91,681
Depreciation	2,961	1,872
Outgoings in respect of investment properties	14,761	16,080
Guaranteed rental returns	2,603	21,953
Operating lease rentals in respect of land and buildings (note (a))	341	240
Staff costs (note (b))	11,574	13,639
Amortisation of goodwill arising on acquisition of an associated company	1,156	1,156
Provision of doubtful debts	449	2,094
Amortisation of deferred pre-operating expenses	—	514
Loss on disposal of fixed assets	916	23
Foreign exchange losses, net	93	640
	<u> </u>	<u> </u>

(a) Operating lease rentals in respect of land and buildings

	2000 HK\$'000	1999 HK\$'000
Operating lease rentals in respect of land and buildings	1,707	1,199
Capitalised in properties under development	<u>(1,366)</u>	<u>(959)</u>
	<u>341</u>	<u>240</u>

(b) Staff costs

	2000 HK\$'000	1999 HK\$'000
Staff costs	26,035	35,453
Capitalised in properties under development	<u>(14,461)</u>	<u>(21,814)</u>
	<u>11,574</u>	<u>13,639</u>

Notes to the Accounts

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6. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest expense on:		
Bank loans due within five years	15,766	10,983
Amounts due to minority shareholders	6,238	5,617
Convertible guaranteed bonds and convertible note	79,819	61,313
Provision for premium on convertible note redemption	20,000	1,667
	<u>121,823</u>	<u>79,580</u>
Less:		
Amounts capitalised in properties under development	(25,051)	(27,174)
Amounts capitalised in associated companies engaged in property development	(5,097)	(6,021)
Amounts capitalised in jointly controlled entities engaged in property development	—	(1,825)
	<u>91,675</u>	<u>44,560</u>

To the extent funds borrowed are used for the purpose of financing certain properties under development, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these properties under development was 5.8% (1999: 5.9%) per annum.

7. SHARE OF LOSSES OF ASSOCIATED COMPANIES

Included in the share of losses of associated companies were share of associated companies' revaluation deficits on investment properties and properties under development held for investment potential totalling HK\$24,568,000.

8. SHARE OF LOSSES OF JOINTLY CONTROLLED ENTITIES

Share of losses of jointly controlled entities for the year represents share of provision for properties under development of a jointly controlled entity amounting to HK\$36,790,000.

Notes to the Accounts

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees	160	120
Basic salaries, allowances and benefits in kind	3,677	9,954
	3,837	10,074
Compensation for loss of office as directors paid by the Company	—	4,107
Capitalised in properties under development	(3,070)	(8,059)
	767	6,122

Directors' emoluments paid to the 4 (1999: 2) independent non-executive directors during the year were fees of HK\$160,000 (1999: HK\$120,000).

The emoluments of the directors fell within the following bands:

	Group	
	2000 Number of directors	1999 Number of directors
HK\$Nil – HK\$1,000,000	7	7
HK\$1,500,001 – HK\$2,000,000	2	2
HK\$2,000,001 – HK\$2,500,000	—	—
HK\$2,500,001 – HK\$3,000,000	—	1
HK\$3,000,001 – HK\$3,500,000	—	—
HK\$3,500,001 – HK\$4,000,000	—	1
	9	11

There was no arrangement under which a director waived or agreed to waive any emolument.

Notes to the Accounts

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid employees during the year included 2 (1999: 4) directors, details of whose emoluments are set out above. The details of the emolument of the remaining 3 (1999: 1) highest paid employees are set out below:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits in kind	2,029	994
Capitalised in properties under development	<u>(1,623)</u>	<u>(795)</u>
	<u>406</u>	<u>199</u>

The emolument of the non-director, highest paid employees fell between nil to HK\$1 million.

10. PENSION COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Pension scheme contributions	<u>289</u>	<u>181</u>

The Group's contributions for the year were reduced by HK\$110,478 (1999: reduced by HK\$210,139) in respect of forfeited contributions. At 31st July, 2000, there were no forfeited contributions (1999: HK\$Nil) available to the Group to reduce its contributions to the pension scheme in future years.

Notes to the Accounts

31st July, 2000

11. TAXATION CREDIT/(CHARGE)

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (1999: HK\$Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in places in which the Group operates.

	Group	
	2000	1999
	HK\$'000	HK\$'000
<hr/>		
Taxation charge for the year in respect of taxation in the Mainland of the People's Republic of China (the "PRC")		
Current year	—	(723)
Over-provision of taxation in prior years (note)	<u>120,740</u>	<u>—</u>
	<u>120,740</u>	<u>(723)</u>

Note: During the year, the directors have finalised the cost of sales of certain properties previously sold by a PRC subsidiary and considered that the Foreign Enterprise Income Tax provision previously made was no longer necessary. Consequently, the amount was fully written back during the year.

In connection with listing of the Company on The Stock Exchange of Hong Kong Limited (currently on the Main Board) (the "Listing"), tax indemnity deeds were signed on 12th November, 1997. Pursuant to which the Company's immediate holding company, Lai Sun Development Company Limited ("LSD"), has undertaken to indemnify the Group in respect of certain potential PRC income taxes and land appreciation taxes ("LAT") payable or shared by the Group in consequence of the disposal of any of the property interests attributable to the Group through its subsidiaries and its associated companies as at 31st October, 1997 ("Property Interests"). These taxation indemnities given by LSD apply in so far as such taxation is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited as at 31st October, 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

The indemnity deeds assume that the Property Interests are disposed of at the value 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 LSD do not cover (i) new properties acquired by the Group subsequent to 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 taxation on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of the Group as set out in the Company's prospectus dated 18th November, 1997.

Notes to the Accounts

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11. TAXATION CREDIT/(CHARGE) (continued)

The Group had no LAT payable during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$57,902,000 (1999: loss of HK\$10,053,000).

13. EARNINGS PER SHARE

Basic earnings per share is calculated based on the following:

	2000 HK\$'000	1999 HK\$'000
Earnings	<u>11,540</u>	<u>10,828</u>
	2000 '000	1999 '000
Weighted average number of ordinary shares in issue during the year	<u>1,047,056</u>	<u>1,044,474</u>

Diluted earnings per share for current year has not been shown as potential shares have an anti-dilutive effect on the basic earnings per share.

Notes to the Accounts

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14. FIXED ASSETS

Group

	31st July, 1999 HK\$'000	Additions HK\$'000	Disposals HK\$'000	Exchange realignments HK\$'000	31st July, 2000 HK\$'000
Cost:					
Leasehold improvements	1,335	706	(1,335)	—	706
Furniture, fixtures and equipment	11,493	1,742	(286)	59	13,008
Motor vehicles	1,925	470	(412)	6	1,989
Computers	1,234	312	(238)	4	1,312
	<u>15,987</u>	<u>3,230</u>	<u>(2,271)</u>	<u>69</u>	<u>17,015</u>
Accumulated depreciation:					
Leasehold improvements	609	141	(609)	—	141
Furniture, fixtures and equipment	4,687	2,270	(165)	20	6,812
Motor vehicles	1,498	275	(371)	4	1,406
Computers	408	275	(197)	—	486
	<u>7,202</u>	<u>2,961</u>	<u>(1,342)</u>	<u>24</u>	<u>8,845</u>
Net book value	<u>8,785</u>				<u>8,170</u>