

# Notes to Financial Statements

31st July, 2000

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

### (d) Acquisition of subsidiaries

|   | 2000<br>HK\$'000 | 1999<br>HK\$'000 |
|---|------------------|------------------|
| Net assets acquired:  |                  |                  |
| Fixed assets  | 286              | —                |
| Properties under development  | —                | 236,590          |
| Cash and bank balances  | 4,108            | 272              |
| Debtors and deposits  | —                | 105              |
| Creditors, deposits received and accruals   | (294)            | (123,787)        |
| Minority interests  | (1,640)          | —                |
|   | <u>2,460</u>     | <u>113,180</u>   |
| Goodwill  | <u>2,930</u>     | <u>—</u>         |
|   | 5,390            | 113,180          |
| Carrying values of interests in subsidiaries<br>acquired originally held by the Group as<br>interests in associates | <u>—</u>         | <u>(113,180)</u> |
| Satisfied by: Cash  | <u>5,390</u>     | <u>—</u>         |

The subsidiaries acquired during the year made no significant contribution to the Group in respect of the cash flows for the year.

The subsidiaries acquired in the previous year utilised HK\$1,223,000 of the Group's net operating cash flows, paid HK\$5,825,000 in respect of the net returns on investments and servicing of finance, utilised no amount in respect of payment of tax, contributed HK\$88,700,000 for investing activities, and utilised HK\$81,926,000 for financing activities.

Analysis of net outflow/(inflow) of cash and cash equivalents in respect of the acquisition of subsidiaries:

|  | 2000<br>HK\$'000 | 1999<br>HK\$'000 |
|--|------------------|------------------|
| Cash consideration   | 5,390            | —                |
| Cash and bank balances acquired  | <u>(4,108)</u>   | <u>(272)</u>     |
| Net outflow/(inflow) of cash and cash equivalents in respect of acquisition<br>of subsidiaries | <u>1,282</u>     | <u>(272)</u>     |

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

### (e) Disposal of subsidiaries

|   | 2000<br>HK\$'000 | 1999<br>HK\$'000 |
|---|------------------|------------------|
| Net assets disposed of:                   |                  |                  |
| Fixed assets                              | 4,828            | 43,667           |
| Properties under development              | 93,523           | 697,377          |
| Goodwill                                  | —                | 34,411           |
| Interests in associates                   | 118,164          | 311,735          |
| Cash and bank balances                    | 42               | 9,349            |
| Debtors and deposits                      | 5,537            | 27,055           |
| Inventories                               | 76               | 5,702            |
| Bank loans and other borrowings           | (142)            | (258,007)        |
| Creditors, deposits received and accruals | (93,965)         | (157,356)        |
| Tax                                       | (393)            | (10,838)         |
| Deferred tax                              | —                | 4,096            |
| Minority interests                        | (39,884)         | (72,530)         |
| Release of exchange reserve               | 8,121            | 27,126           |
| Goodwill                                  | —                | 18,700           |
| Release of capital reserve                | (3,272)          | —                |
|   | <u>92,635</u>    | <u>680,487</u>   |
| Gain on disposal                          | <u>81,006</u>    | <u>13,923</u>    |
|   | <u>173,641</u>   | <u>694,410</u>   |
| Satisfied by:                             |                  |                  |
| Cash                                      | 173,641          | 529,202          |
| Receivables                               | —                | 165,208          |
|   | <u>173,641</u>   | <u>694,410</u>   |

The subsidiaries disposed of during the year utilised HK\$4,625,000 (1999: HK\$13,346,000) of the Group's net operating cash flows, contributed HK\$240,000 (1999: utilised HK\$1,537,000) in respect of returns on investments and servicing of finance, no contribution (1999: paid HK\$13,640,000) in respect of tax, contributed HK\$10,000,000 (1999: utilised HK\$28,924,000) for investing activities and utilised HK\$5,604,000 (1999: HK\$9,207,000) for financing activities.

# Notes to Financial Statements

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

### (e) Disposal of subsidiaries (continued)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

|  | 2000<br>HK\$'000 | 1999<br>HK\$'000 |
|--|------------------|------------------|
| Cash consideration received  | 173,641          | 529,202          |
| Cash and bank balances disposed of   | <u>(42)</u>      | <u>(9,349)</u>   |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | <u>173,599</u>   | <u>519,853</u>   |

## 36. COMMITMENTS

Other than disclosed elsewhere in the financial statements, the Group had the following commitments not provided for in the financial statements at the balance sheet date:

### (a)

|  | Group            |                  |
|--|------------------|------------------|
|  | 2000<br>HK\$'000 | 1999<br>HK\$'000 |
| Authorised capital expenditure:  |                  |                  |
| Contracted, but not provided for:  |                  |                  |
| Subsidiaries   | 695,812          | 692,175          |
| Jointly controlled entities  | <u>—</u>         | <u>141,816</u>   |
|  | 695,812          | 833,991          |
| Not contracted for: Subsidiaries   | <u>5,000</u>     | <u>138,211</u>   |
|  | <u>700,812</u>   | <u>972,202</u>   |
| Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring: |                  |                  |
| Within one year  | 1,151            | 107              |
| Within two to five years   | 146,209          | 257              |
| After five years   | <u>—</u>         | <u>1,587</u>     |
|  | <u>147,360</u>   | <u>1,951</u>     |

# Notes to Financial Statements

31st July, 2000

## 36. COMMITMENTS (continued)

- (b) On 7th April, 1999, the Company entered into an option agreement, supplemented on 12th April, 1999 by a supplemental agreement (collectively the "Option Agreement") with Sun Chung, a wholly-owned subsidiary of the BOC. Pursuant to the Option Agreement, the Company, at a consideration of HK\$10, granted a right (the "Option") to Sun Chung to purchase 230,000,000 shares (the "Option Shares") in Lai Fung held by the Company.

The Option is exercisable in whole or in part, and from time to time, upon Sun Chung giving the Company at least seven days' notice during the period commencing on 7th April, 1999 and ending on 7th October, 2002, at a price of HK\$0.65 per Option Share, subject to adjustments in certain events as defined in the Option Agreement.

- (c) On 8th June, 1999, the Company entered into an option agreement (the "Second Option Agreement") with a third party (the "Optionholder"), pursuant to which the Company granted a right (the "Second Option") to the Optionholder to purchase 20,000,000 ordinary shares in Lai Fung (the "Second Option Shares") held by the Company.

The Second Option is exercisable in whole or in part, and from time to time, upon the Optionholder giving the Company at least seven days' notice during the period from 1st December, 2000 to 8th September, 2002, at a price of HK\$0.63 per Second Option Share, subject to adjustments upon the occurrence of certain events as defined in the Second Option Agreement.

- (d) At 31st July, 2000, Lai Fung had the following rental agreements with BOC, the terms of which are as follows:

- (i) BOC had leased certain units of the Bank of China Tower, a property situated in Hong Kong, to Lai Fung for a term of three years commencing on 1st September, 1999 and expiring on 31st August, 2002. The rental and service charges are approximately HK\$177,000 per month.
- (ii) BOC had agreed to lease certain car parking spaces of the Bank of China Tower to Lai Fung on a month-to-month basis commencing on 1st September, 2000. The licence agreement can be terminated upon one month's written notice by either party. The licence fee is HK\$15,000 per month. The lease commenced on 12th September, 2000.

The rental and service charges paid during the year is HK\$2,112,000.

## (e) Pension commitments

The Group operates a defined benefits retirement scheme for the eligible employees of Furama which is non-contributory. The assets of the scheme are held separately from those of the Group in an independently administered fund.

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31st July, 2000

## 36. COMMITMENTS (continued)

### (e) Pension commitments (continued)

Contributions to the scheme are determined with the advice of independent, qualified actuaries on the basis of triennial valuations, being the minimum requirement under the Occupational Retirement Schemes Ordinance, using the aggregate method. Based on the most recent valuation carried out on 30th September, 1999 by Watson Wyatt Hong Kong Limited, qualified consulting actuaries, the level of funding ranges from 0% to 8.3% of employee costs with no material surplus or deficiency.

The principal assumption used by the actuaries was that the average salary inflation and the average return on investments would be 8% and 9% per annum, respectively. The differences between the market value of the scheme's assets and the present value of the past service liabilities on an ongoing basis at the date of the actuarial valuation, are taken into consideration when determining future funding rates in order to ensure that the scheme will be able to meet these liabilities as they become due. The current funding rates are those recommended by the actuaries to ensure that the scheme will be able to meet its future liabilities.

### (f) Grant of put options

Upon the completion of the sale and purchase agreement of Fortune Sign (the "Completion") as further detailed in note 22, 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 the "Put Options") to the Majestic Purchasers to require Furama to acquire the entire issued share capital of Fortune Sign and the related shareholder's loan owing from Fortune Sign, respectively, at a total consideration of approximately HK\$1,930 million. The Put Options cannot be exercised by the Majestic Purchasers unless both elements are exercised simultaneously.

The Put Options are each for a term of approximately 3 years commencing from the date of the Completion and expiring on 28th February, 2001 (both dates inclusive) (the "Option Period") and may be exercised at any time and from time to time, during the period from 1st February, 2001 to 28th February, 2001 (both dates inclusive) (the "Exercise Period").

At any time before the Exercise Period, upon the occurrence of certain events specified in the Option Deed (the "Relevant Event"), including inter alia, the Lim Family ceases to beneficially own, whether directly or indirectly, at least 35% of the issued share capital of LSG from time to time, or LSG, together with the Lim Family, cease to beneficially own, whether, directly or indirectly, at least 35% of the issued share capital of the Company from time to time, or the Company ceases to beneficially own at least 51% of the issued share capital of Furama, the Majestic Purchasers shall be entitled to exercise the Put Options by giving notice in writing to Furama of their intention to do so within one month after the occurrence of the Relevant Event.

The Put Options will lapse automatically and will not be exercisable upon the earlier of:

- (i) the expiry of the Option Period; or
- (ii) the occurrence of any of the events specified in the Option Deed including, in particular, (a) any actual disposal of any legal and/or beneficial interests in any share of, and/or loan to, Fortune Sign or any member of Taiwa Land Investment Company, Limited and its subsidiaries (the "Taiwa Group"); or (b) any actual disposal by the Purchasers, Fortune Sign or any member of the Taiwa Group of any legal and/or beneficial interests in the Majestic Properties or any part thereof.

# Notes to Financial Statements

31st July, 2000

## 36. COMMITMENTS (continued)

### (f) Grant of put options (continued)

Upon the exercise of the Put Options by the Purchasers, Furama will be entitled to offset the outstanding principal amount of the Note against the total consideration payable to the Purchasers.

On 18th December, 1998, a supplementary deed was entered into among 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 relevant provisions in the Option Deed.

Furama disposed of the Furama Hotel during the year, which constituted a Relevant Event. A second supplementary deed was then entered into by the Company, Furama and the Majestic Purchasers on 24th May, 2000, whereby the Exercise Period was amended. The revised Exercise Period is from 25th May, 2000 to 28th February, 2001 (both dates inclusive).

## 37. CONTINGENT LIABILITIES

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

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2000<br>HK\$'000 | 1999<br>HK\$'000 | 2000<br>HK\$'000 | 1999<br>HK\$'000 |
| Guarantees given to banks in connection with facilities granted to: |                  |                  |                  |                  |
| Subsidiaries  | —                | —                | 2,110,686        | 3,261,269        |
| Associates  | 304,443          | 295,935          | 304,443          | 295,935          |
| Investee companies  | 31,717           | 278,613          | 31,717           | 278,613          |
|   | <b>336,160</b>   | <b>574,548</b>   | <b>2,446,846</b> | <b>3,835,817</b> |
| Guarantees given in connection with the issue of convertible bonds  | —                | —                | 1,161,375        | 1,161,375        |
| Guarantees given in connection with the issue of bonds              | —                | —                | 891,250          | 891,250          |
|   | <b>336,160</b>   | <b>574,548</b>   | <b>4,499,471</b> | <b>5,888,442</b> |

In addition to the above, as at 31st July, 2000, the Group had the following contingent liabilities:

- (1) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of the Hong Kong Plaza, Lai Fung has agreed to guarantee up to 95% of the liability of Li Xing for the due performance of its undertaking to buy back the relevant properties in case of default by the borrowers.
- (2) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, Lai Fung has agreed to provide guarantees to the bank to buy back the relevant properties in case of default by the borrowers.

# Notes to Financial Statements

31st July, 2000

## 38. POST BALANCE SHEET EVENT

On 17th November, 2000, eSun announced for a rights issue exercise (the “Rights Issue”) and the proposed arrangements are as follows:

- (a) the 3,000,000,000 shares of HK\$0.10 each in the authorised share capital of eSun would be consolidated into 600,000,000 shares of HK\$0.50 each by consolidating every five shares of HK\$0.10 each into one consolidated share (“Consolidated Shares”) of HK\$0.50 each (the “Share Consolidation”);
- (b) subject to the Share Consolidation taking effect, the authorised share capital of eSun would be increased from HK\$300,000,000 to HK\$1,000,000,000 divided into 2,000,000,000 Consolidated Shares of HK\$0.50 each (the “Increase of Authorised Capital”);
- (c) subject to the Share Consolidation and Increase of Authorised Capital taking effect, an amount not less than approximately HK\$160,000,000, before expenses, would be raised by issuing not less than approximately 188,528,309 new Consolidated Shares (the “Rights Shares”) by way of Rights Issue at a price of HK\$0.85 per Rights Share on the basis of one Rights Share for every two Consolidated Shares held on 29th December, 2000.

The Company and Transtrend Holdings Limited (“Transtrend”), Lai Sun Hotels (B.V.I.) Limited (“LSH (BVI)”) and Lycon Investment Limited (“Lycon”), being wholly-owned subsidiaries of the Company, had undertaken to take up their entitlement under the Rights Issue in full. The total amount to be contributed by the Company, Transtrend, LSH (BVI) and Lycon will be approximately HK\$80,895,000. The proceeds from the Rights Issue, which will be not less than HK\$160 million, are intended mainly for the setting-up of a programme production centre in Hong Kong and the proposed acquisition of a site in Macau for development of a multi-purpose production facility for production of television dramas and movies. The programmes produced are expected to be distributed through various terrestrial, satellite pay-TV and the Internet channels. The Group is optimistic that eSun will deliver meaningful contribution to the Group in the foreseeable future.

## 39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year’s presentation.

## 40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20th November, 2000.