eSun Holdings Limited

Interim Report 2001

PLACE OF INCORPORATION

Bermuda

BOARD OF DIRECTORS

Lien Jown Jing, Vincent *(Chairman)*
Stephen Hung *(Vice Chairman)*
Lee Po On *(Chief Executive Officer)*
Lam Kin Ngok, Peter
Lim Por Yen
Liu Ngai Wing
Shi Nan Sun (appointed on 1st September, 2001)
Lam Kin Ming
Tam Wai Chu, Maria
U Po Chu
Shiu Kai Wah
Chiu Wai
Victor Yang
Alfred Donald Yap*
Low Chee Keong*

* *Independent non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

RESULTS

The Directors of eSun Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June, 2001

	Notes	**6 months ended 30/6/2001 (Unaudited) *HK$'000***	6 months ended 30/6/2000 (Unaudited) *HK$'000*
TURNOVER			
Continuing operations		**19,434**	1,716
Discontinued operations	3	**2,440**	151,468
	4	**21,874**	153,184
Cost of sales		**(18,785)**	(74,502)
Gross profit		**3,089**	78,682
Other revenue	5	**44,194**	105,795
Marketing expenses		**(727)**	(8,031)
Administrative expenses		**(68,833)**	(59,191)
Other operating expenses, net		**(12,188)**	(55,092)
Unrealised holding loss of short term investments		**(21,850)**	(233,050)
Provision for impairment in value of a subsidiary		**(17,058)**	—
Net gain on disposal of subsidiaries		**—**	23,597
Gain on disposal of associates		**—**	8,975
Provisions for diminution in value of long term investments		**—**	(20,476)
LOSS FROM OPERATING ACTIVITIES	4,6	**(73,373)**	(158,791)
Finance costs	7	**(2,382)**	(16,602)
Share of profits less losses of associates		**(8,267)**	(3,350)
LOSS BEFORE TAX		**(84,022)**	(178,743)
Tax	8	**3,039**	(14,114)
LOSS BEFORE MINORITY INTERESTS		**(80,983)**	(192,857)
Minority interests		**498**	432
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		**(80,485)**	(192,425)
LOSS PER SHARE			
— Basic	9	**(14.59 cents)**	(52.67 cents)
— Diluted		**N/A**	N/A
INTERIM DIVIDEND PER SHARE		**—**	—

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th June, 2001

	Notes	(Unaudited) HK$'000
Exchange realignments on translation of the financial statements of foreign subsidiaries and associates, net	14	**(302)**
Net loss attributable to shareholders	14	**(80,485)**
Total recognised losses		**(80,787)**
Transfer impairment in value of goodwill of a subsidiary to the profit and loss account	14	**17,058**
Transfer capitalised expense for acquisition of other investment to the profit and loss account	14	**4,977**
		(58,752)

CONDENSED CONSOLIDATED BALANCE SHEET

30th June, 2001

	Notes	**30/6/2001 (Unaudited) *HK$'000***	31/12/2000 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Fixed assets		**129,160**	95,089
Long term investments		**37,053**	34,553
Associates		**119,695**	52,537
Due from Furama Hotel Enterprises Limited		**1,500,040**	1,500,040
Deferred tax assets		**661**	1,360
		1,786,609	1,683,579
CURRENT ASSETS			
Short term investments		**109,333**	162,970
Due from a fellow subsidiary		**18,699**	18,905
Stocks		**—**	392
Debtors and deposits	11	**41,568**	49,540
Cash held in trust		**2,276**	2,276
Cash and cash equivalents		**140,900**	50,829
		312,776	284,912
CURRENT LIABILITIES			
Creditors and accruals	12	**44,895**	38,809
Tax payable		**14,242**	18,188
Finance lease payables		**22**	19
Interest-bearing bank loans due within one year		**25,000**	—-
		84,159	57,016
NET CURRENT ASSETS		**228,617**	227,896
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,015,226**	1,911,475
NON-CURRENT LIABILITIES			
Finance lease payables		**(94)**	(103)
		(94)	(103)
MINORITY INTERESTS		**276**	(221)
		2,015,408	1,911,151
CAPITAL AND RESERVES			
Issued capital	13	**285,592**	188,528
Reserves	14	**1,729,816**	1,722,623
		2,015,408	1,911,151

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2001

	(Unaudited) *HK$'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(48,794)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	38,558
TAX PAID	(658)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(79,408)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(90,302)
NET CASH INFLOW FROM FINANCING ACTIVITIES	182,113
INCREASE IN CASH AND CASH EQUIVALENTS	91,811
Cash and cash equivalents at beginning of period	49,089
CASH AND CASH EQUIVALENTS AT END OF PERIOD	140,900
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
At end of the period:	
Cash and cash equivalents	140,900
	140,900
At beginning of the period:	
Cash and cash equivalents	50,829
Time deposits with original maturity of not less than three months when acquired	(1,740)
	49,089

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2001

1. Basis of presentation

The condensed consolidated financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

2. Accounting policies

The condensed consolidated financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") No.25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("SSAP 25") except that no comparative figures have been presented for the condensed consolidated statement of recognised gains and losses and the condensed consolidated cash flow statement, being the first condensed consolidated statement of recognised gains and losses and the first condensed consolidated cash flow statement included in the interim report relating to accounting period ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2000, except that the Group has adopted the accounting policy of goodwill in SSAP 30 issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January, 2001.

Goodwill arising on the consolidation of subsidiaries and on acquisition of associates represents the excess purchase consideration paid for the subsidiaries/associates over the fair values ascribed to the net underlying assets acquired at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries and associates in 2000 was eliminated against reserves at the time of acquisition.

Goodwill arising on the acquisition of associates during the period is amortised on the straight-line basis over a period of twenty years. Such goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairments in values, other than those considered to be temporary in nature, deemed necessary by the Directors.

Any impairment in value of goodwill, as determined by the Directors, is charged to the profit and loss account.

On disposal of subsidiaries or associates, the relevant portion of attributable goodwill, previously eliminated against reserves as well as goodwill less accumulated amortisation or impairment in asset value are written back and included in the calculation of the gain or loss on disposal.

3. Discontinued operations

In 2000, the Company and Lai Sun Development Company Limited ("LSD") entered into a reorganisation agreement to effect an overall group reorganisation of Lai Sun group of companies. As a result of the group reorganisation, among other things, the Group transferred to LSD certain of its subsidiaries, associates and a long term investment, the principal activities of which were the investment in and the operation of hotels and restaurants, and property investment. The transaction was completed in two phrases, which were undertaken on 30th June, 2000 and 31st July, 2000 respectively. During the period, the operation of restaurants in Canada was ceased (the "Discontinued Operations").

The results of the Discontinued Operations were accounted for until their effective dates of disposal, and the related assets and liabilities were included in the calculation of the net gain arising on the disposal of the Discontinued Operations, no gain or loss on disposal was recorded for the period (the year ended 31st December, 2000: gain of HK$8,562,000).

The Discontinued Operations disposed of during the period generated turnover of HK$2,440,000 (six months ended 30th June, 2000: HK$151,468,000) and contributed a net loss of HK$3,996,000 (six months ended 30th June, 2000: net profit of HK$43,806,000) to the Group's loss from operating activities for the period.

The comparative turnover for the prior period in respect of these operations, which had previously been reported as "continuing operations" has been reclassified under the heading of "discontinued operations" for comparative purposes.

4. Segmental information

An analysis of Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the six months ended 30th June, 2001 is as follows:

	6 months ended 30/6/2001	6 months ended 30/6/2000	**6 months ended 30/6/2001**	6 months ended 30/6/2000
	Turnover		**Contribution to loss from operating activities**	
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By activity:				
Hotel and restaurant business	**2,440**	151,468	**(4,001)**	22,073
Hotel management fee income	**2,618**	1,716	**935**	541
Media and entertainment operations	**—**	—	**(4,955)**	—
Satellite television operations	**—**	—	**(7,121)**	—
Advertising income	**16,816**	—	**1,051**	—
	21,874	153,184	**(14,091)**	22,614
Interest income received and receivable on the amount due from and deposits paid to Furama Hotel Enterprises Limited ("FHEL")			**37,193**	69,787
Unallocated general and administrative expenses, net of other income			**(55,151)**	(48,721)
Unrealised holding losses on short term investments			**(21,850)**	(233,050)
Gain/(loss) on disposal of short term investments			**(2,416)**	18,483
Provision for impairment in value of a subsidiary			**(17,058)**	—
Provisions for diminution in value of long term investments			**—**	(20,476)
Gain on disposal of associates			**—**	8,975
Gain on disposal of subsidiaries			**—**	23,597
LOSS FROM OPERATING ACTIVITIES			**(73,373)**	(158,791)

	6 months ended 30/6/2001	6 months ended 30/6/2000	6 months ended 30/6/2001	6 months ended 30/6/2000
	Turnover		Contribution to loss from operating activities	
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By geographical area:				
The People's Republic of China:				
Hong Kong	**15,177**	116,783	**(11,313)**	20,832
Other areas	**1,638**	—	**288**	—
Canada	**2,440**	5,709	**(4,001)**	(590)
Others	**2,619**	30,692	**935**	2,372
	21,874	153,184	**(14,091)**	22,614
Interest income received and receivable on the amount due from and deposits paid to FHEL			**37,193**	69,787
Unallocated general and administrative expenses, net of other income			**(55,151)**	(48,721)
Unrealised holding losses on short term investments			**(21,850)**	(233,050)
Gain/(loss) on disposal of short term investments			**(2,416)**	18,483
Provision for impairment in value of a subsidiary			**(17,058)**	—
Provisions for diminution in value of long term investments			**—**	(20,476)
Gain on disposal of associates			**—**	8,975
Gain on disposal of subsidiaries			**—**	23,597
LOSS FROM OPERATING ACTIVITIES			**(73,373)**	(158,791)

5. Other revenue

	6 months ended 30/6/2001 (Unaudited)	6 months ended 30/6/2000 (Unaudited)
	HK$'000	*HK$'000*
Interest income	**40,698**	84,655
Dividend income from long term investments	**—**	812
Gain on disposal of short term investments	**—**	18,483
Others	**3,496**	1,845
	44,194	105,795

6. Loss from operating activities

This is arrived at after (crediting)/charging:

	6 months ended 30/6/2001 (Unaudited) ***HK$'000***	6 months ended 30/6/2000 (Unaudited) *HK$'000*
Depreciation — Owned fixed assets	**3,282**	9,450
— Leased fixed assets	**2**	—
Provision for impairment in value of a subsidiary	**17,058**	—
Write-off capitalised expense for acquisition of other investment	**4,977**	—
Amortisation of goodwill on acquisition of associates	**268**	—
Foreign exchange gain, net	**(160)**	(48)
(Gain)/loss on disposal of fixed assets	**479**	(1,056)

7. Finance costs

	6 months ended 30/6/2001 (Unaudited) ***HK$'000***	6 months ended 30/6/2000 (Unaudited) *HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**1,125**	13,167
Interest on finance leases	**7**	—
Bank and financing charges	**1,250**	1,334
Exchange differences arising from retranslation of bank loans	**—**	2,101
	2,382	16,602

8. Taxation

Hong Kong profits tax has been provided at the rate of 16% (six months ended 30th June, 2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	6 months ended 30/6/2001 (Unaudited) ***HK$'000***	6 months ended 30/6/2000 (Unaudited) *HK$'000*
Provision for tax for the period:		
Hong Kong	**172**	14,000
Overseas	**104**	—
	276	14,000
Prior year's over-provisions:		
Hong Kong	**(3,000)**	—
Overseas	**(535)**	(66)
	(3,535)	(66)
Share of tax attributable to associates:		
Hong Kong	**220**	—
Overseas	**—**	180
	220	180
Tax charge/(credit) for the period	**(3,039)**	14,114

9. Loss per share

The calculation of basic loss per share on the net loss attributable to shareholders for the period of HK$80,485,000 (net loss attributable to shareholders for six months ended 30th June, 2000: HK$192,425,000), and the weighted average of 551,642,093 (six months ended 30th June, 2000: 365,351,695) ordinary shares in issue during the period, adjusted to reflect the five-to-one share consolidation during December 2000 and the effect of the rights issue in January 2001. The loss per share for the period ended 30th June, 2000 was adjusted accordingly.

No diluted loss per share is presented as there is no dilution effect arising from the share options granted on 22nd February, 1999, 12th February, 2000, 4th March, 2000 and 28th April, 2000 by the Company for both periods ended 30th June, 2000 and 2001.

10. Related Party Transactions

During the period, the Group entered into the following material transactions with related parties.

	Notes	**6 months ended 30/6/2001 (Unaudited) *HK$'000***	6 months ended 30/6/2000 (Unaudited) *HK$'000*
Rental expense paid to a fellow subsidiary	(i)	**1,169**	1,126
Rental expense paid to Lai Sun Development Company Limited ("LSD")	(i)	**276**	—
Hotel management, royalty and marketing fees received from hotels held by certain associates of LSD and a fellow subsidiary	(ii)	**2,618**	1,716
Hotel management fees paid to a fellow subsidiary	(iii)	**1,231**	1,052
Legal fees paid to Boughton Peterson Yang Anderson	(iv)	**1,036**	1,083
Interest income on deposits paid to FHEL	(v)	**—**	69,787
Interest income on an amount due from FHEL	(v)	**37,193**	—

(i) Rental is charged with reference to market rate.

(ii) The hotel management, royalty and marketing fees are charged to the hotels at certain percentages ranging from 1% to 10% on the gross revenue or operating profits of the hotels.

(iii) The hotel management fees paid are charged by a fellow subsidiary at certain percentages ranging from 1.5% to 1.8% on the gross revenue of the hotels.

(iv) The legal fees were charged by Boughton Peterson Yang Anderson for the legal services rendered to the Group at market rates. Mr. Victor Yang, a Director of the Company, is a partner of the firm.

(v) On 11th February, 1999, the Company and its wholly-owned subsidiary, Golden Pool Enterprise Limited ("GPEL"), entered into an agreement (the "Development Agreement") with LSD and its wholly-owned subsidiary, FHEL, with respect to the redevelopment of the Furama Hotel Hong Kong (the "Furama Hotel"), which is a property situated in Hong Kong. Pursuant to the Development Agreement, the Furama Hotel would be redeveloped into a composite retail, hotel and office building (the "New Building") which was expected to be completed in or around May 2004.

Upon the completion of the redevelopment of the New Building, GPEL would purchase the retail and hotel portions from FHEL for a consideration of HK$1,900,000,000, which was fully paid by GPEL to FHEL in 1999. According to the Development Agreement, the prepaid consideration was interest-bearing at the higher of 8% or LIBOR plus 2% per annum for the HK$964,923,000, and at the three-month deposit rate offered by the Group's principal banks plus 1% per annum for the remaining HK$935,077,000. The interest income received and receivable during the six months ended 30th June, 2000 was HK$69,787,000.

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the "Reorganisation Agreement"). Pursuant to the Reorganisation Agreement, the Company transferred certain hotel and ancillary assets, through the disposal of certain subsidiaries, associates and a long term investment, with an aggregate value of HK$685,410,000 to LSD and, at the same time, LSD transferred certain technology-oriented assets with an aggregate value of HK$1,085,370,000 to the Company.

The Development Agreement was cancelled on 29th June, 2000 upon approval by the shareholders of the Company and LSD. Accordingly, the prepaid consideration of the HK$1,900,000,000 became immediately due from FHEL, of which HK$399,960,000 was settled after completion of the reorganisation in June and July 2000. As a result, the amount due from FHEL was reduced to HK$1,500,040,000, which is interest-bearing at 5% per annum. The interest income received and receivable during the period in this respect was HK$37,193,000.

11. Debtors and deposits

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. The aged analysis of the trade debtors as at 30th June, 2001 and 31st December, 2000 were as follows:

	30/6/2001 (Unaudited) *HK$'000*	31/12/2000 (Audited) *HK$'000*
Trade debtors:		
Less than 30 days	**2,157**	2,958
31 – 60 days	**453**	6,550
61 – 90 days	**4,605**	1,056
Over 90 days	**2,598**	1,592
	9,813	12,156
Other debtors and deposits	**31,755**	37,384
	41,568	49,540

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

12. Creditors and accruals

The aged analysis of trade creditors as at 30th June, 2001 and 31st December, 2000 were as follows:

	30/6/2001	31/12/2000
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade creditors:		
Less than 30 days	**9,979**	2,362
31 – 60 days	**2,135**	1,734
61 – 90 days	**202**	145
Over 90 days	**—**	6,732
	12,316	10,973
Other creditors and accruals	**32,579**	27,836
	44,895	38,809

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

13. Share capital

	30/6/2001		31/12/2000	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.50 (31st December, 2000: HK$0.50) each	**2,000,000**	**1,000,000**	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK$0.50 (31st December, 2000: HK$0.50) each	**571,185**	**285,592**	377,057	188,528

During the period, the following movements in share capital were recorded:

(a) On 16th November, 2000, the Company proposed to raise not less than HK$160 million, before expenses, by issuing approximately 188,528,309 new shares of the Company of HK$0.50 each, 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 existing shares held on 29th December, 2000. On 16th January, 2001, the Directors announced that the rights issue of 188,528,309 new shares had become unconditional and payable in full on acceptance.

(b) On 9th February, 2001, a conditional sale and purchase agreement (the "Agreement") was entered into between Autumn Gold Limited ("Autumn Gold"), a wholly-owned subsidiary of the Company, and Mr. Chan Chee Kheong ("Mr. Chan"). Pursuant to the Agreement, Autumn Gold acquired from Mr. Chan 5 existing shares of HK$1.00 each, being 50% equity interest, of The Artiste Campus International Limited, a company incorporated in Hong Kong with limited liability, for a total consideration of HK$7,600,005, comprising (i) HK$2,000,005 in cash, and (ii) the balance of HK$5,600,000 by the allotment and issue of a total of 5,600,000 new shares of HK$0.50 each in the share capital of the Company, at an issue price of HK$1.00 per share. The allotment of the 5,600,000 new shares to Mr. Chan was completed on 4th April, 2001.

A summary of the movements in the issued share capital of the Company during the period is as follows:

	Number of ordinary shares	Amount
	'000	*HK$'000*
At beginning of period (Audited)	377,057	188,528
Issue of rights shares (a)	188,528	94,264
Share issued as partial consideration for the acquisition of an associate (b)	5,600	2,800
At 30th June, 2001 (Unaudited)	571,185	285,592

14. Reserves

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2000 and 1st January, 2001 (Audited)	2,822,477	68,234	(1,168,088)	1,722,623
Issue of rights shares	65,985	—	—	65,985
Share issue expenses	(2,840)	—	—	(2,840)
Issue of shares	2,800	—	—	2,800
Exchange realignments	—	—	(302)	(302)
Transfer impairment in value of goodwill of a subsidiary to the profit and loss account	—	17,058	—	17,058
Transfer capitalised expense for acquisition of other investment to the profit and loss account	—	4,977	—	4,977
Net loss for the period	—	—	(80,485)	(80,485)
At 30th June, 2001 (Unaudited)	2,888,422	90,269	(1,248,875)	1,729,816

15. Commitments

Commitments not provided for in the financial statements at the balance sheet dates were as follows:

	30/6/2001	31/12/2000
	(Unaudited)	(Restated)
	HK$'000	*HK$'000*
Capital Commitments:		
Contracted for but not provided for	**22,322**	14,253
Authorised but not contracted for	**22,641**	46,660
	44,963	60,913
Future minimum lease payments under non-cancellable operating leases in respect of land and buildings for each of the following periods:		
Not later than one year	**2,136**	2,907
Later than one year and not later than five years	**1,150**	2,109
	3,286	5,016

The Group has complied with SSAP 14 (revised) for the first time in this interim reporting period. As a result, total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases. Figures for the year ended 31st December, 2000 have been restated to conform with the current period's presentation.

16. Contingent Liabilities

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

	30/6/2001	31/12/2000
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Guarantees given to third parties in connection with restaurant operations	**—**	446
Guarantees given to LSD in connection with disposal of an associate to LSD	**25,000**	25,000
	25,000	25,446

17. Subsequent events

No significant events requiring disclosure occurred.

18. Comparative amounts

As further explained in note 3 to the financial statements, due to the discontinuance of the Group's investment in and operation of hotels and restaurants, the prior year's balance of turnover, and loss from operating activities in respect of these discontinued operations, which had previously been classified as part of the continuing operations, have been reclassified as "discontinued operations" for comparative purposes.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period under review (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded a turnover of HK$21,874,000 for the six months ended 30th June, 2001, compared with the turnover of HK$153,184,000 reported for the corresponding period last year. Net loss attributable to shareholders was HK$80,485,000, which was an improvement on the net loss of HK$192,425,000 recorded for the corresponding period last year.

The significant reduction in turnover was due to the discontinuance of the hotel and restaurant business, which had been disposed of after 30th June, 2000 following completion of the reorganisation agreement referred to in note 3 to the financial statements. This decrease had been slightly offset by the revenue generated by the advertising agency business acquired by the Group in the above reorganisation scheme.

The net loss attributable to shareholders mainly arose from a loss of HK$2,416,000 on disposal of short-term investment, a provision of HK$22,483,000 for diminution in value on the 237 million "SUNDAY Communications Limited" shares, the pre-operating loss of HK$8,072,000 in setting up the satellite television operation, the loss on discontinuing a restaurant operation in Vancouver in May 2001 of HK$2,787,000, a provision for impairment in value of a subsidiary of HK$17,058,000 and other operating costs for developing media, entertainment and Internet-related businesses after setting off interest income amounting to approximately HK$27,669,000.

During the period under review, progress in the development of Internet-related business of the Group fell short of previous expectations. Market sentiment towards this sector also turned extremely cautious. The Directors had appraised all existing operations rigorously from a pragmatic yet critical point of view. Appropriate measures had been taken to rationalise the Group's investments in this sector.

Since the last quarter of 2000, the Group has allocated additional resources to satellite television operation and film and entertainment investment. The television programme production centre of East Asia Satellite Television Limited ("EAST"), wholly-owned by the Company, at South Horizons, Aberdeen, Hong Kong commenced operation during the second quarter of 2001, and has been producing programmes in Chinese for broadcast on the "Life Channel" of EAST. The production centre has an annual production capacity of approximately 1,500 hours of programme. Daily broadcast of programmes on the EAST "Life Channel" commenced on 21st July, 2001.

Construction work of the East Asia Satellite Television City ("EAST-TV City") in COTAI City in Macau commenced during the first half of 2001, with completion of the project scheduled in 2003. The EAST-TV City is designed with a production capacity of approximately 5,000 hours of programme per annum and will also comprise a tourist theme park in addition to other ancillary facilities.

During the period under review, the Group increased its equity interest in Media Asia Holdings Ltd. ("MAH") from 26.33% to 39.55%. The core businesses of MAH are the production, provision and distribution of films, television programmes and other media-related consumer products. It is the single largest worldwide distributor of over 700 contemporary Chinese language films produced between 1971 and 2000.

Prospects

With the planned increase in investment in television programme production facilities and the acquisition of an additional equity interest in MAH, the Directors anticipate that satellite television and movie and entertainment operations will assume a more prominent role in the strategic development of the Group in the foreseeable future. Competition for television viewers in the Greater China region, particularly in the Mainland of China will continue to be intense in the years to come. The substantial number of television operators outside of the Mainland which have announced their interest in competing for a limited number of licences to broadcast to viewers in the Mainland is an unmistakable signal. However, the Group is optimistic that growth in potential television advertising revenue in the Mainland should mirror the encouraging growth rate forecast for the economy of China in the near future. The Directors are confident that the Company will be able to capture and maintain a niche in the Mainland television broadcast market in the future.

Given the strengths of MAH in the Hong Kong movie and entertainment industry, and the possible policy direction of the Hong Kong SAR government in lending greater support to the local movie industry, the Directors expect MAH to have great potential for further growth. The Group's investment in MAH will also promote natural synergy with the satellite television and Internet-related operations, to the benefit of the long-term development of the Group.

The Directors believe that the Internet-related operations of the Group will complement the satellite television and movie and entertainment businesses, and should remain an important element in the development plan of the Group. The performance of the existing Internet-related businesses of the Group will be monitored closely to identify any need for further improvement. Tight but prudent control on additional investments and operating costs will continue to be enforced stringently by Management.

Liquidity and Financial Resources

As at 30th June, 2001, the Group had cash and cash equivalents of HK$141 million. The amount due to bank borrowings within one year was HK$25 million. The Group's gearing was considered low, as the debt to equity ratio was only 1%, expressed as a percentage of total bank borrowings to total net assets.

Future capital expenditures will mainly consist of refurbishment and television equipment costs for the new office at South Horizons, Aberdeen, Hong Kong and the construction cost for the EAST-TV City in COTAI City in Macau.

The Group believes its cash holding, liquid asset value and future revenue will be sufficient to fund capital expenditure and working capital requirements.

Contingent Liabilities

Details of contingent liabilities are set out in note 16 to the financial statements.

Employees and Remuneration Policies

The Group employed a total of approximately 130 employees as at 30th June, 2001. Pay rates for employees are maintained at competitive levels and salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programs. The Company adopted a share option scheme for its Directors and employees on 25th November, 1996.

Litigation

(a) In 1998, the Group disposed of its 50% interest in Delta Hotels Limited ("DHL") to Canadian Pacific Hotels Corporation (the "Purchaser"). Under the terms of the sale and purchase agreement, C$10 million (approximately HK$52 million) of the sale proceeds was held in escrow (the "Escrow Funds") pending the expiration of a warranty period.

The Purchaser made claims against the Escrow Funds in 2000. Subsequently C$8 million of the Escrow Funds was released to the Group and the other owner during 2000. The Group and the other owner commenced action against the Purchaser for the remaining C$2 million, and the Purchaser issued a counterclaim for the C$2 million.

The litigation is still in a discovery stage, and the Directors are uncertain as to the amount of the Escrow Funds that will be recovered by the Group. However, the Group has been advised by the other owner that they have substantive grounds to rebut the defence and counterclaims made by the Purchaser, and the Directors are satisfied that the Group will receive a significant portion of the Escrow Funds in due course.

(b) In the annual report of the Company for the year ended 31st December, 1999, it was reported that the Group had lost its appeal in the litigation in respect of the Whistler Mountain Inn, Limited Partnership ("WMILP") against the limited partners. Subsequent to the appeal, the Group settled with the plaintiffs the quantum of damages, interest, and costs of the action, and the court appointed receiver of the limited partnership commenced the liquidation of the limited partnership. However, the action with the limited partners and the subsequent settlement did not deal with a separate C$600,000 claim from one of the limited partners against the Group and the other limited partners. The claimant claimed that he acquired his units in WMILP in 1982 on the basis that they would not be subject to the limited partnership agreement, and wanted the return of all the rent earned on his partnership units since 1982. Although this separate action has been outstanding since 1989, it has been inactive. The receiver of the limited partnership has indicated that it will apply to dismiss the action for failure to proceed. The exposure of the Group to this litigation has been covered by an indemnity from Lai Sun Development Company Limited and Mr. Lam Kin Ngok, Peter, a Director of the Company.

(c) In the annual report of the Company for the year ended 31st December, 1999, it was reported that Sun Microsystems Inc. ("SMI") had commenced legal proceedings against the Group in March 2000, alleging the Group's use of the "eSun" trademark was a passing off of SMI's own trademarks. The interlocutory injunction application by SMI was dismissed by the High Court of Hong Kong, with a strong indication from the Court that SMI's case lacked merit. The matter has since been dormant, but the action is still considered "pending".

PRACTICE NOTE 19 TO THE LISTING RULES

Advance to Furama Hotel Enterprises Limited ("Furama"), a subsidiary of Lai Sun Development Company Limited ("LSD")

On 1st June, 2000, LSD and the Company entered into the Reorganization Agreement which contemplated the cancellation of the Development Agreement entered into in February 1999 and the reduction of the outstanding indebtedness owed by Furama to Golden Pool Enterprise Limited ("GPEL"), a subsidiary of the Company. In connection with the Reorganization Agreement, LSD agreed to dispose of certain technology-oriented assets to the Group and the Group agreed to transfer certain hotel and ancillary assets to LSD. The net consideration of HK$400 million on the disposal of assets made by both parties would be deducted from the outstanding principal amount of indebtedness due from Furama.

As of 30th June, 2001, the receivable due from Furama was approximately HK$1,519 million. GPEL is entitled to share security items (B) and (C) below with LSD's Exchangeable Bondholders and Convertible Bondholders in respect of the indebtedness due from Furama on a pro-rata basis.

A. LSD has guaranteed repayment of the outstanding principal and accrued interest payable to GPEL.

B. The indebtedness shall be secured by a second charge created over the 6,500 shares in Diamond String Limited beneficially owned by LSD through Surearn Profits Limited for repayment of outstanding principal amounts plus accrued interest.

C. LSD has agreed to grant a negative pledge to its Exchangeable Bondholders, the Convertible Bondholders and the Company, and has agreed not to create additional security over Causeway Bay Plaza 1, Causeway Bay Plaza 2 and Cheung Sha Wan Plaza without the prior consent of LSD's Exchangeable Bondholders and Convertible Bondholders and the Company. LSD has also undertaken that, upon the disposal of all or a substantial part of such properties by LSD or any of its subsidiaries prior to 31st December, 2002 which results in a net consideration in excess of amounts secured by any first or prior charge or right over the property sold and costs and expenses related to such disposal ("Surplus"), 70% of any Surplus would be paid on a pro-rata basis based on, in the case of LSD's Exchangeable Bondholders and the Convertible Bondholders, the outstanding principal amounts owed plus accrued interest and redemption premium, and any investment parity payment due together with accrued interest, and in the case of the Company, the outstanding principal amount owed plus accrued interest, from time to time to LSD's Exchangeable Bondholders, the Convertible Bondholders and the Company.

The indebtedness due from Furama is subject to interest at a rate of 5% per annum on the outstanding balance and repayment date will fall due on 31st December, 2002.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th June, 2001, the interests of the Directors and the chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) (the "SDI Ordinance") as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

The Company

	Number of Shares Held				
Name	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total**
Lien Jown Jing, Vincent	931,800	Nil	Nil	2,250,000 *(Note 1)*	931,800
Stephen Hung	Nil	Nil	Nil	3,375,000 *(Note 1)*	Nil
Lee Po On	Nil	Nil	Nil	6,000,000 *(Note 1)*	Nil
Lam Kin Ngok, Peter	3,426,567	Nil	Nil	10,500,000 *(Note 1)*	3,426,567
Lim Por Yen	1,656,867	Nil	285,512,791 *(Note 2)*	Nil	287,169,658
Liu Ngai Wing	11,215	Nil	Nil	1,800,000 *(Note 1)*	11,215
U Po Chu	112,500	Nil	Nil	Nil	112,500
Victor Yang	Nil	Nil	Nil	3,450,000 *(Note 1)*	Nil

Note 1: An employee share option scheme was adopted by the Company on 25th November, 1996 and will remain in force for a period of 10 years. An option granted under the share option scheme may be exercised in accordance with the terms of the scheme and the conditions of grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.

Options held by certain Directors of the Company as at 30th June, 2001 are set out below:

Name	**Date of Grant**	**No. of Options***	**Option Period**	**Subscription Price****
Lien Jown Jing, Vincent	12/02/2000	2,250,000	13/02/2001–12/08/2002***	HK$2.655 per share
Stephen Hung	12/02/2000	3,375,000	13/02/2001–12/08/2002***	HK$2.655 per share
Lee Po On	04/03/2000	6,000,000	05/09/2000–04/09/2002	HK$6.094 per share
Lam Kin Ngok, Peter	12/02/2000	6,000,000	13/08/2000–12/08/2002	HK$2.655 per share
	04/03/2000	4,500,000	05/09/2000–04/09/2002	HK$6.094 per share
Liu Ngai Wing	22/02/1999	1,800,000	23/08/1999–22/08/2001	HK$2.176 per share
Victor Yang	12/02/2000	450,000	13/02/2001–12/08/2002***	HK$2.655 per share
	04/03/2000	3,000,000	05/09/2000–04/09/2002	HK$6.094 per share

* *As adjusted by the share consolidation and the rights issue of the Company and the respective lapses of options*

** *As adjusted by the share consolidation and the rights issue of the Company*

*** *in 3 six-month tranches*

Note 2: Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in the Company. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued share capital of LSD. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.30% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of approximately 42% in the issued share capital of LSG.

In addition to the above, one Director held non-beneficial interests in the share capital of one subsidiary of the Company as nominee shareholder for the purpose of complying with the statutory requirement for a minimum number of shareholders for such subsidiary.

Save as disclosed above, as at 30th June, 2001, none of the Directors or the chief executive of the Company or their respective associates had any interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or the Model Code (including interests which they were deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, the following persons were interested or deemed to be interested in 10% or more of the nominal value of the total issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

	Number of Shares Held
Lai Sun Development Company Limited ("LSD")	285,512,791
Lai Sun Garment (International) Limited ("LSG")	285,512,791 *(Note)*
Lim Por Yen	285,512,791 *(Note)*

Note: These interests in the Company were held by LSD and its subsidiaries. LSG and Mr. Lim Por Yen were deemed to be interested in the 285,512,791 shares in the Company held by LSD and its subsidiaries by virtue of LSG and its wholly-owned subsidiary holding collectively an interest of approximately 42.25% in the issued share capital of LSD. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 34.30% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of approximately 42% in the issued share capital of LSG.

Save for the interests disclosed above, the Directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at 30th June, 2001.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2001, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period for the six months ended 30th June, 2001 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The audit committee comprises two independent non-executive Directors, Mr. Alfred Donald Yap and Mr. Low Chee Keong as at the report date. The Interim Report of the Company for the six months ended 30th June, 2001 has been reviewed by the audit committee.

The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Bye-laws of the Company.

By Order of the Board
Lien Jown Jing, Vincent
Chairman

Hong Kong, 21st September, 2001