

Notes to Financial Statements

31st July, 2002

1. CORPORATE INFORMATION

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

- property development for sale
- property investment
- the 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\$1,942 million for the year ended 31st July, 2002 (2001: HK\$1,196 million). The loss principally arose from non-recurring transactions in respect of the disposals of certain subsidiaries and associates, and was compounded by impairment provisions in respect of its interests in certain properties under development, unlisted investments, associates and goodwill related thereto.

At the balance sheet date, the Group had consolidated net current liabilities of HK\$6,193 million (2001: HK\$957 million) and consolidated net assets of HK\$766 million (2001: HK\$3,866 million).

Included in such net current liabilities were Exchangeable Bonds (note 29) of HK\$740 million, Convertible Bonds (note 30) of HK\$965 million, the Debt of HK\$1,500 million (as defined in note 19) owed by the Group to Golden Pool Enterprises Limited (“GPEL”), a wholly-owned subsidiary of eSun Holdings Limited (“eSun”), which in turn is an associate of the Group and bank and other borrowings of HK\$2,445 million, all of which are scheduled to mature within the next 12 months from the balance sheet date.

Over the past two years, the Group has successfully monitored an orderly disposal of assets, including properties and other investments, to generate positive cash flows for the repayment of bank and other borrowings and to provide sufficient working capital for the Group’s operations. The Group will continue to implement appropriate asset disposal programmes to further reduce its overall level of indebtedness.

During the year, the Group has been working closely with its legal and financial advisors in formulating a plan for the repayment and/or refinancing of its outstanding indebtedness. Recently, the Group initiated discussions with the Exchangeable Bondholders, Convertible Bondholders and eSun to explore the terms of a new debt restructuring plan (the “New Restructuring Plan”). The Group has also initiated negotiations with its principal banks with a view to arranging a rescheduling and/or refinancing of its bank borrowings (the “Refinancing Arrangements”). As of the date of approval of these financial statements, no fixed terms or binding agreements in respect of the New Restructuring Plan or the Refinancing Arrangements had been agreed upon or executed.

Notes to Financial Statements

31st July, 2002

2. BASIS OF PRESENTATION (continued)

The directors of the Company believe that the Group will be able to secure the agreement of the Exchangeable Bondholders, Convertible Bondholders, eSun and the banks to the New Restructuring Plan and the Refinancing Arrangements and, at the same time, continue the successful orderly disposal of the necessary Group assets 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 recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised): “Events after the balance sheet date”
- SSAP 18 (Revised): “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations - Subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”
- Interpretation 14: “Evaluating the substance of transactions involving the legal form of a lease”
- Interpretation 15: “Business combinations - “Date of exchange” and fair value of equity investments”
- Interpretation 16: “Disclosure - Service concession arrangements”
- Interpretation 17: “Revenue - Barter transactions involving advertising services”

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 these SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

Notes to Financial Statements

31st July, 2002

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

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. Provisions are now disclosed as a separate line item on the face of the consolidated balance sheet and the new required additional disclosures have been included in notes 28 and 32 to the financial statements “Provision for premium on bonds redemption” and “Provision for premium on loan repayment”, respectively.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The transitional provisions set out in paragraph 88 of SSAP 30 have been adopted by the Group for goodwill/negative goodwill arising from acquisitions prior to 1st August, 2001, the date when the SSAP was first adopted by the Group, which had been previously eliminated against/taken to consolidated reserves and as permitted by these provisions, the goodwill/negative goodwill has not been retrospectively restated under the SSAP. The adoption of the SSAP and Interpretation has however resulted in a prior year adjustment, further details of which are included in note 13 to the financial statements. The required new additional disclosures are included in notes 19 and 34 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to SSAP 17 “Property, plant and equipment” are effective for the first time for the current year’s financial statements. The only significant effect of this revised SSAP is that it requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 15 to the financial statements, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of fixed assets in the consolidated balance sheet.

Notes to Financial Statements

31st July, 2002

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 disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, properties under development held for investment potential 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, 2002. 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.

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 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 interest 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.

Notes to Financial Statements

31st July, 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

In prior years, goodwill arising on acquisitions of subsidiaries was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1st August, 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy described above.

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 that remains 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.

Notes to Financial Statements

31st July, 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

In prior years, negative goodwill arising on acquisitions of subsidiaries was credited to the consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1st August, 2001, to remain credited to the consolidated reserves. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy described above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets of the subsidiary 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.

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

46

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.

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.

Notes to Financial Statements

31st July, 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

No depreciation is provided for freehold land, 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.

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.

Notes to Financial Statements

31st July, 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 intended to be held for their investment potential are stated at their open market values on the basis of annual professional valuations.

Changes in the values of properties under development which have been revalued are dealt with as movements in the revaluation reserve for properties under development held for investment potential. If 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.

48

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

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

Where pre-sale profits are recognised on properties under development, the attributable profit on the pre-sold portion of the properties under development is recognised over the course of the development after taking into account all further costs to completion and due allowances for contingencies, and is calculated on each project by reference to the lower of:

- (i) the percentage which results from the proportion of the total construction cost incurred to the total estimated construction costs to completion; and
- (ii) the proportion of the actual cash received to the total sales consideration.

Notes to Financial Statements

31st July, 2002

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 for 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. Upon the exchange/conversion of the bonds prior to maturity, the related premium provided is released and accounted for as part of the consideration for the shares into which the bonds are so exchanged/converted.

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

31st July, 2002

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash equivalents

For the purpose of the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use. For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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 risks and rewards 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) income from the pre-sale of certain properties under development, when the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, and on the basis set out under the heading "Properties under development" above;
- (c) 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;
- (d) 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;
- (e) from hotel and restaurant operations and other related service income, in the period in which such services are rendered;
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (g) dividends, when the shareholders' right to receive payment has been established.

Notes to Financial Statements

31st July, 2002

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 for the year 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 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 are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and associates operating outside Hong Kong are translated into 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.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, a defined contribution retirement scheme (the "Contribution Scheme") and a defined benefit retirement scheme (the "Benefit Scheme") 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 Scheme and the Contribution Scheme 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 Scheme, while under the Contribution Scheme, 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.

Contributions to the Benefit Scheme are charged to the profit and loss account so as to charge the cost of the retirement benefits over the eligible employees' working lives within the Group. The contribution rate is recommended by independent qualified actuaries on the basis of triennial valuations, using the aggregate method.

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.

Notes to Financial Statements

31st July, 2002

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. 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 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.

Notes to Financial Statements

31st July, 2002

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.

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	5,661	351,064	415,479	756,224	498,972	761,164	14,608	31,410	—	—	934,720	1,899,862
Intersegment sales	—	—	13,087	15,564	—	—	16,522	—	(29,609)	(15,564)	—	—
Other revenue	608	12,192	20,036	2,934	3,702	3,524	5,244	49,167	—	—	29,590	67,817
Total	6,269	363,256	448,602	774,722	502,674	764,688	36,374	80,577	(29,609)	(15,564)	964,310	1,967,679
Segment results	(54,959)	(165,512)	52,697	610,775	57,447	71,857	(23,124)	(93,638)	—	—	32,061	423,482
Interest income and unallocated gains											103,120	190,430
Unallocated expenses											(62,160)	(91,842)
Loss on deemed disposal of subsidiaries											—	(1,044,781)
Release of unrealised profit arising on deemed disposal of subsidiaries											—	412,556
Impairment of long term unlisted investments											(62,400)	(71,755)
Provision for contingent loss in respect of the Put Options (note 36(c))											—	(86,000)
Profit/(loss) from operating activities - page 54											10,621	(267,910)

Notes to Financial Statements

31st July, 2002

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) from operating activities - page 53											10,621	(267,910)
Finance costs											(567,748)	(638,483)
Share of profits and losses of associates	4	(2,143)	—	—	—	—	—	—	—	—	4	(2,143)
Share of profits and losses of associates - unallocated											(232,511)	(172,406)
Amortisation of goodwill on acquisition of associates											(6,636)	(578)
Impairment in value of goodwill of an associate											(228,258)	—
Impairment in value of associates	(318,000)	(45,131)	—	—	—	—	—	—	—	—	(318,000)	(45,131)
Impairment in value of associates - unallocated											—	(28,871)
Loss on disposal of associates											(538,662)	—
Loss before tax											(1,881,190)	(1,155,522)
Tax											(35,927)	(30,476)
Loss before minority interests											(1,917,117)	(1,185,998)
Minority interests											(24,391)	(10,184)
Net loss from ordinary activities attributable to shareholders											(1,941,508)	(1,196,182)

Notes to Financial Statements

31st July, 2002

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	133,586	209,241	5,002,010	6,287,230	1,365,339	1,409,353	54,256	68,689	—	—	6,555,191	7,974,513
Interests in associates	882,982	1,132,449	—	—	—	—	—	—	—	—	882,982	1,132,449
Interests in associates - unallocated											1,199,393	996,505
Unallocated assets											676,472	1,262,275
Total assets											9,314,038	11,365,742
Segment liabilities	27,540	37,739	109,052	149,590	44,016	75,598	13,178	8,112	—	—	193,786	271,039
Bank and other borrowings											3,938,317	4,354,150
Provision for premium on bonds redemption											600,692	473,145
Bonds payable											740,025	740,053
Convertible bonds											965,250	965,287
Amount due to an associate											1,500,040	—
Other unallocated liabilities											258,236	334,009
Total liabilities											8,196,346	7,137,683
Other segment information:												
Depreciation	—	—	17	836	16,027	21,064	1,746	3,390	—	—	17,790	25,290
Unallocated amounts											12,814	12,762
											30,604	38,052
Capital expenditure	7,306	95,245	1,724	368	5,039	9,398	50	9,009	—	—	14,119	114,020
Unallocated amounts											11,886	8,524
											26,005	122,544
Loss on disposal of subsidiaries	2,345	—	294,016	—	—	—	—	—	—	—	296,361	—
Gain on disposal of an investment property	—	—	—	(205,402)	—	—	—	—	—	—	—	(205,402)
Impairment of properties under development	44,267	138,652	—	—	—	—	—	—	—	—	44,267	138,652

Notes to Financial Statements

31st July, 2002

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

	Hong Kong		Elsewhere in the People's Republic of China		Vietnam		Other locations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	790,599	1,666,799	—	99,649	144,121	126,903	—	6,511	934,720	1,899,862
Other revenue	24,438	32,085	4,348	35,732	644	—	160	—	29,590	67,817
Total	815,037	1,698,884	4,348	135,381	144,765	126,903	160	6,511	964,310	1,967,679
Segment results	136	425,898	(9,632)	(38,686)	40,938	30,079	619	6,191	32,061	423,482
Other segment information:										
Segment assets	6,120,052	7,520,402	38,757	48,705	388,546	390,808	7,836	14,598	6,555,191	7,974,513
Capital expenditure	22,203	51,564	30	68,284	3,772	2,696	—	—	26,005	122,544

Notes to Financial Statements

31st July, 2002

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.

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Interest income from associates	(i)	87,768	109,477
Interest expenses to GPEL (<i>note 19</i>)	(ii)	75,002	25,069
Rental income from a related company	(iii)	10,344	10,380
Rental expenses to an associate	(iv)	48,333	145,000

Notes:

- (i) The interest income from associates arose from advances made thereto. Interest was charged at the prevailing market rates.
- (ii) Pursuant to the Debt Deed, as further detailed in note 19, interest was charged at 5% per annum.
- (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	
	2002 HK\$'000	2001 HK\$'000
Sale of properties	5,661	596,064
Property rentals	415,479	511,224
Hotel, restaurant and other operations	513,580	792,574
	<u>934,720</u>	<u>1,899,862</u>

Notes to Financial Statements

31st July, 2002

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Auditors' remuneration	2,190	3,798
Depreciation	30,604	38,052
Staff costs:		
Wages and salaries (including directors' remuneration - see note 10)	232,021	309,078
Pension scheme contributions	8,422	4,094
Less: Forfeited contributions	(176)	(267)
	<u>8,246</u>	<u>3,827</u>
Net pension scheme contributions*	8,246	3,827
	<u>240,267</u>	<u>312,905</u>
Write off of fixed assets	—	17,394
Loss on disposal of fixed assets	1,582	2,421
Loss on disposal of interests in associates	—	1,651
Loss on disposal of long term unlisted investments	90	251
Loss on disposal of short term listed investments	—	1,854
Loss on disposal of short term unlisted investments	—	3,353
Unrealised loss of short term investments	2,360	2,418
Provisions for contingent losses in respect of profit guarantees	6,498	33,689
Provision for doubtful debts	4,220	40,129
Write off of bad debts	3,075	—
Minimum lease payments under operating leases in respect of land and buildings	51,865	148,484
Foreign exchange losses/(gains), net	(1,285)	1,632
Rental income	(415,479)	(511,224)
Less: Outgoings	66,293	83,794
	<u>(349,186)</u>	<u>(427,430)</u>
Net rental income	(349,186)	(427,430)
Interest income from bank deposits	(3,810)	(21,363)
Other interest income	(95,357)	(153,384)
Dividend income from listed investments	—	(200)
Dividend income from unlisted investments	—	(10,989)
Gain on disposal of an investment property	—	(205,402)
Gain on disposal of a long term listed investment	—	(7,662)
Write back of contingent loss in respect of a guarantee given to a bank	(71,720)	(78,141)

* At 31st July, 2002, no forfeited contributions from the Contribution Scheme were available to the Group to reduce its contributions to Contribution Scheme in future years (2001: Nil).

Notes to Financial Statements

31st July, 2002

9. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	252,541	373,207
Interest on amount due to GPEL (<i>note 19</i>)	75,002	25,069
Interest on bonds payable	37,005	38,122
Interest on convertible bonds and convertible note	38,505	78,734
	<u>403,053</u>	<u>515,132</u>
Less: Interest capitalised in properties under development	(33,042)	(69,012)
Interest capitalised in associates engaged in property development	—	(3,523)
	<u>370,011</u>	<u>442,597</u>
Other finance costs:		
Provision for premium on bonds redemption	127,547	119,064
Provision for premium on note redemption	—	10,000
Provision for premium on loan repayment	35,000	17,500
Bank charges and refinancing charges	35,190	49,322
	<u>567,748</u>	<u>638,483</u>

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock of Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	260	260
Other emoluments:		
Salaries, allowances and benefits in kind	25,225	25,006
Pension scheme contributions	369	256
	<u>25,854</u>	<u>25,522</u>

Fees include HK\$260,000 (2001: 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 (2001: Nil).

Notes to Financial Statements

31st July, 2002

10. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(a) Directors' remuneration (continued)

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

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	2	2
HK\$5,500,001 to HK\$6,000,000	—	1
HK\$9,500,001 to HK\$10,000,000	—	1
HK\$14,500,001 to HK\$15,000,000	1	—
	<u>12</u>	<u>11</u>

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

(b) Employees' remuneration

The five highest paid employees during the year included four (2001: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2001: one) non-director, highest paid employee are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	3,360	3,948
Pension scheme contributions	168	140
	<u>3,528</u>	<u>4,088</u>

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

	Number of employees	
	2002	2001
HK\$3,500,001 to HK\$4,000,000	1	—
HK\$4,000,001 to HK\$4,500,000	—	1
	<u>1</u>	<u>1</u>

Notes to Financial Statements

31st July, 2002

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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	
	2002	2001
	HK\$'000	HK\$'000
Provision for tax for the year:		
Hong Kong	35,408	38,052
Outside Hong Kong	—	19
Deferred tax (<i>note 31</i>)	—	(250)
	<u>35,408</u>	<u>37,821</u>
Prior year under/(over)provision:		
Hong Kong	(157)	(3,866)
Outside Hong Kong	—	657
	<u>(157)</u>	<u>(3,209)</u>
Share of tax attributable to associates:		
Hong Kong	766	(3,611)
Outside Hong Kong	(90)	(525)
	<u>676</u>	<u>(4,136)</u>
Tax charge for the year	<u>35,927</u>	<u>30,476</u>

Notes to Financial Statements

31st July, 2002

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$2,900,888,000 (2001: HK\$1,798,029,000).

13. PRIOR YEAR ADJUSTMENT

In accordance with paragraph 88 of SSAP 30 and Interpretation 13, the Group is required to estimate any impairment loss that arose on goodwill arising from acquisitions of subsidiaries, which was previously eliminated against reserves, in accordance with the requirements of SSAP 31 since the date of acquisition of the subsidiaries. Implementation of this policy is treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policy".

The Group has performed an assessment of the fair values of its goodwill eliminated against reserves prior to 1st August, 2001. As a result, the Group has recognised an impairment of goodwill, previously eliminated against reserves, of HK\$62,619,000 which has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. The prior year adjustment has resulted in an increase of HK\$62,619,000 in both of the Group's capital reserve and accumulated loss as at 1st August, 2000. This prior year adjustment has no effect on the results and net asset values of the Group for the current year and last year.

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\$1,941,508,000 (2001: HK\$1,196,182,000) and the weighted average number of 3,746,002,000 (2001: 3,746,002,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31st July, 2002 and 2001 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

31st July, 2002

15. FIXED ASSETS

Group

	1st August, 2001 as previously reported HK\$'000	Reclassified to accumulated depreciation and impairment/ from cost HK\$'000	1st August, 2001 as restated HK\$'000	Additions HK\$'000	Disposals HK\$'000	Exchange realignments HK\$'000	31st July, 2002 HK\$'000
Cost:							
Hotel properties	1,123,900	612,165	1,736,065	—	—	(315)	1,735,750
Freehold land and buildings	5,546	—	5,546	—	(5,546)	—	—
Leasehold land and buildings	45,322	14,049	59,371	—	—	—	59,371
Leasehold improvements	36,043	—	36,043	6,132	(3,779)	—	38,396
Furniture, fixtures and equipment	334,089	11,956	346,045	8,112	(173)	(49)	353,935
Motor vehicles	28,304	—	28,304	2,382	(4,852)	5	25,839
Computers	12,316	—	12,316	349	(2,833)	—	9,832
Motor vessels	34,204	—	34,204	—	(1,630)	—	32,574
	<u>1,619,724</u>	<u>638,170</u>	<u>2,257,894</u>	<u>16,975</u>	<u>(18,813)</u>	<u>(359)</u>	<u>2,255,697</u>
Accumulated depreciation and impairment:							
Hotel properties	—	612,165	612,165	—	—	(178)	611,987
Freehold buildings	2,884	—	2,884	2,662	(5,546)	—	—
Leasehold land and buildings	12,661	14,049	26,710	1,408	—	(4)	28,114
Leasehold improvements	31,174	—	31,174	2,287	—	—	33,461
Furniture, fixtures and equipment	198,232	11,956	210,188	20,746	(160)	(20)	230,754
Motor vehicles	19,557	—	19,557	2,507	(4,661)	4	17,407
Computers	8,286	—	8,286	992	(2,821)	—	6,457
Motor vessels	34,202	—	34,202	2	(1,630)	—	32,574
	<u>306,996</u>	<u>638,170</u>	<u>945,166</u>	<u>30,604</u>	<u>(14,818)</u>	<u>(198)</u>	<u>960,754</u>
Net book value	<u>1,312,728</u>		<u>1,312,728</u>				<u>1,294,943</u>

Certain land and buildings, hotel properties and equipments of the Group with carrying amounts of HK\$930,657,000 (2001: HK\$933,045,000) were pledged to banks to secure banking facilities granted to the Group.

Notes to Financial Statements

31st July, 2002

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	1,199,594	564,774	1,764,368
Long term leases	30,753	—	30,753
	<u>1,230,347</u>	<u>564,774</u>	<u>1,795,121</u>

Note: Accumulated impairment losses are aggregated with accumulated depreciation under the revised disclosure requirements of SSAP 17, as detailed in note 3 to the financial statements, whereas previously they were disclosed as an adjustment to the cost of the assets. This change has been disclosed as a retrospective reclassification.

Company

	1st August, 2001 HK\$'000	Additions HK\$'000	Disposals HK\$'000	31st July, 2002 HK\$'000
Cost:				
Freehold land and buildings	5,546	—	(5,546)	—
Leasehold land and buildings	10,532	—	—	10,532
Leasehold improvements	13,082	4,693	—	17,775
Furniture, fixtures and equipment	43,901	4,063	(87)	47,877
Motor vehicles	20,543	1,514	(4,852)	17,205
Computers	3,375	74	(2,758)	691
	<u>96,979</u>	<u>10,344</u>	<u>(13,243)</u>	<u>94,080</u>
Accumulated depreciation:				
Freehold buildings	2,884	2,662	(5,546)	—
Leasehold land and buildings	4,592	421	—	5,013
Leasehold improvements	12,968	1,581	—	14,549
Furniture, fixtures and equipment	40,861	3,100	(83)	43,878
Motor vehicles	14,561	2,113	(4,661)	12,013
Computers	3,038	173	(2,745)	466
	<u>78,904</u>	<u>10,050</u>	<u>(13,035)</u>	<u>75,919</u>
Net book value	<u>18,075</u>			<u>18,161</u>

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

Certain land and buildings of the Company with carrying amounts of HK\$1,508,000 (2001: HK\$1,583,000) were pledged to banks to secure banking facilities granted to the Group.

Notes to Financial Statements

31st July, 2002

16. INVESTMENT PROPERTIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year, at valuation	6,224,870	9,478,130	2,824,000	3,136,200
Additions, at cost	1,724	368	1,628	368
Disposals	—	(340,000)	—	(340,000)
Arising on disposal of subsidiaries	(580,096)	—	—	—
Arising on deemed disposal of subsidiaries (<i>note 35(d)</i>)	—	(3,049,823)	—	—
Surplus/(deficit) on revaluation	(658,638)	136,195	(337,128)	27,432
At end of year, at valuation	<u>4,987,860</u>	<u>6,224,870</u>	<u>2,488,500</u>	<u>2,824,000</u>

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

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term leases	1,037,000	1,753,000	—	—
Medium term leases	<u>3,950,860</u>	<u>4,471,870</u>	<u>2,488,500</u>	<u>2,824,000</u>
	<u>4,987,860</u>	<u>6,224,870</u>	<u>2,488,500</u>	<u>2,824,000</u>

At 31st July, 2002, 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 to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK\$4,980,500,000 (2001: HK\$6,044,000,000) and HK\$2,488,500,000 (2001: HK\$2,652,000,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

Notes to Financial Statements

31st July, 2002

17. PROPERTIES UNDER DEVELOPMENT

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties under development				
held for investment potential:				
At beginning of year, at valuation	—	2,576,880	—	—
Interest capitalised, net	—	10,379	—	—
Other additions, at cost	—	52,699	—	—
Arising on deemed disposal				
of subsidiaries	—	(2,641,076)	—	—
Exchange realignments	—	1,118	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At end of year, at valuation	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Properties under development				
held for other purposes:				
At beginning of year, at cost				
less impairment losses	160,754	994,127	19,389	17,769
Interest capitalised, net	33,042	58,633	832	1,693
Other additions, at cost	7,306	42,546	147	107
Revenue generated from properties				
under development	(235)	(180)	(180)	(180)
Transferred to completed				
properties for sale	—	(77,549)	—	—
Disposals	—	—	(20,188)	—
Arising on deemed disposal				
of subsidiaries	—	(718,618)	—	—
Arising on disposal of a subsidiary	(40,008)	—	—	—
Impairment provided for				
during the year	(44,267)	(138,652)	—	—
Exchange realignments	—	447	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At end of year, at cost less				
impairment losses	<u>116,592</u>	<u>160,754</u>	<u>—</u>	<u>19,389</u>
Total balance at end of year	<u>116,592</u>	<u>160,754</u>	<u>—</u>	<u>19,389</u>

Notes to Financial Statements

31st July, 2002

17. PROPERTIES UNDER DEVELOPMENT (continued)

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

Properties under development which were carried at net realisable value and included in the above balance at the balance sheet date amounted to HK\$95,000,000 (2001: HK\$141,365,000).

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.

Certain properties under development of the Group with a carrying amount of HK\$75,000,000 (2001: HK\$75,000,000) were pledged to a bank to secure banking facilities granted to the Group.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,174,064	1,174,063
Amounts due from subsidiaries	5,288,338	14,539,431
Amounts due to subsidiaries	(4,175,158)	(8,254,045)
	2,287,244	7,459,449
Provision for impairment	(3,676,085)	(7,505,896)
	(1,388,841)	(46,447)

Notes to Financial Statements

31st July, 2002

18. INTERESTS IN SUBSIDIARIES (continued)

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		Principal activities
				Direct	Indirect	
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
Furama Hotel Enterprises Limited	Hong Kong	HK\$102,880,454	Ordinary	—	100.00	Hotel operations
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) 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

Notes to Financial Statements

31st July, 2002

18. INTERESTS IN SUBSIDIARIES (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		Principal activities
				Direct	Indirect	
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
Peakflow Profits Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	100.00	—	Investment holding
Target Power Limited	Hong Kong	HK\$10,000	Ordinary	100.00	—	Property development
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.

Notes to Financial Statements

31st July, 2002

18. INTERESTS IN SUBSIDIARIES (continued)

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 net assets 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 has been pledged to a shareholder of Bayshore Development Group Limited, a 30% owned associate of the Group, to secure a loan facility granted to the Group and shares of certain other subsidiaries held by the Group have been pledged to banks to secure banking facilities granted to the Group.

On 12th December, 2001, MBE Holdings Limited ("MBE"), an 80%-owned subsidiary of the Company, entered into a sale and purchase agreement with Global Lane Limited ("Global Lane"), a wholly-owned subsidiary of Nan Fung Development Limited ("Nan Fung"). Pursuant to this agreement, MBE agreed to sell its entire equity interest in, and shareholders' advance to, Deluxe View Limited, a company engaged in property development, to Global Lane, for a cash consideration, determined based on an independent valuation of the property held by Deluxe View Limited, of HK\$55 million while MBE should be responsible for the payment and settlement of the land premium payable to the Government of Hong Kong of HK\$19.3 million. The proceeds from the disposal were used as working capital of the Group.

As at 12th December, 2001, Nan Fung was an associate of Mr. Chen Din Hwa who is a substantial shareholder owning approximately 20.86% equity interest in the Company. Accordingly, the transaction constituted a related party and a connected transaction of the Company under SSAP 20 and the Listing Rules, respectively. The transaction was completed on 25th January, 2002.

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Shares listed in Hong Kong, at cost	—	—	1,803,163	3,591,390
Unlisted shares, at cost	—	—	18,134	18,134
Share of net assets	266,490	1,965,767	—	—
Goodwill on acquisition, net of amortisation and impairment	296,000	—	—	—
	<u>562,490</u>	<u>1,965,767</u>	<u>1,821,297</u>	<u>3,609,524</u>
Amounts due from associates	2,108,129	1,969,462	332,090	337,044
Amounts due to associates	(1,520,546)	(1,551,750)	(7,582)	—
	<u>1,150,073</u>	<u>2,383,479</u>	<u>2,145,805</u>	<u>3,946,568</u>
Provision for impairment	(567,738)	(254,525)	(1,173,053)	(1,391,087)
	<u>582,335</u>	<u>2,128,954</u>	<u>972,752</u>	<u>2,555,481</u>
Amount due to an associate classified as a current liability	1,500,040	—	—	—
	<u>2,082,375</u>	<u>2,128,954</u>	<u>972,752</u>	<u>2,555,481</u>
Market value of listed shares at the balance sheet date	<u>114,205</u>	<u>345,962</u>	<u>101,653</u>	<u>323,368</u>

Balances amounting to HK\$1,153,458,000 (2001: HK\$1,110,283,000) due from associates are interest-bearing at the prevailing market rates. HK\$1,500,040,000 of the amounts due to associates is due to GPEL under terms which are detailed below. Except for the foregoing, the balances with associates are unsecured, interest-free and have no fixed terms of repayment.

As at 31st July, 2002, 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. Pursuant to an intercompany debt deed (the “Debt Deed”) entered into by the Company, eSun, Furama and GPEL on 30th June, 2000, the settlement date of the Debt will be the earlier of 31st December, 2002, or the day on which the Exchangeable Bonds (note 29) and the Convertible Bonds (note 30) are repaid in full. Details of the security provided to eSun in respect of the Debt are included in note 29 to the financial statements. The Debt is interest-bearing with interest charged at 5% per annum.

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

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

SSAP 30 was adopted during the year, as detailed in note 3 to the financial statements. The amount of the goodwill, arising from the acquisition of interests in associates, capitalised as an asset is as follows:

	Group 2002 HK\$'000
<hr/>	
Cost:	
Acquisition of an associate during the year and balance as at 31st July, 2002	530,894
Accumulated amortisation and impairment:	
Amortisation provided during the year	6,636
Impairment provided during the year	228,258
At 31st July, 2002	234,894
Net book value:	
At 31st July, 2002	296,000

Impairment in value of goodwill of an associate arose from the directors' assessment of the estimated realisable value of an associate with reference to the quotation from an independent third party.

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

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
Asia Television Limited #	Corporate	Hong Kong	Ordinary	32.75	Television broadcasting, programme production and distribution of program rights
Bayshore Development Group Limited #	Corporate	British Virgin Islands/ Hong Kong	Ordinary	30.00	Property development
Bushell Limited	Corporate	Hong Kong	Ordinary	50.00	Property development
East Asia Entertainment Limited	Corporate	Hong Kong	Ordinary	49.99	Entertainment activity production
East Asia Satellite Television Limited	Corporate	Hong Kong	Ordinary	49.99	Programme production, distribution and broadcasting
East Asia - Televisão Por Satélite, Limitada #	Corporate	Macau	Quota	49.99	Programme production, distribution and broadcasting
eSun Holdings Limited	Corporate	Bermuda/ Hong Kong	Ordinary	49.99	Investment holding

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of capital held	Principal activities
Houseman International Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	49.99	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
Sky Connection Limited	Corporate	Hong Kong	Ordinary	50.00	Retail

Audited by public accountants other than Ernst & Young Hong Kong or any other Ernst & Young International member firm.

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 shareholdings of certain associates held by the Group have been pledged to banks to secure banking facilities granted to the Group. The Group's entire shareholdings of and advance to Bayshore Development Group Limited ("Bayshore") have been pledged to a shareholder of Bayshore to secure a loan facility granted to the Group.

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

- (a) the Company agreed to sell, and LSG agreed to purchase, 779,958,912 ordinary shares of Lai Fung Holdings Limited ("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");

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

- (b) Mr. Lim agreed to sell, and LSD agreed to purchase, 125,450,000 ordinary shares in the capital of Asia Television Limited (“ATV”), which represented approximately 16.08% of the then existing issued share capital of ATV (the “ATV Transaction”) for a consideration of HK\$225,200,000; and
- (c) 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 ATV Transaction (the “Assignment of Debt”).

Since Mr. Lim was an executive director of the Company and LSG, and a substantial shareholder of LSG, which in turn owned a 42.25% equity interest in the Company, the Lai Fung Transaction, the ATV Transaction and the Assignment of Debt constituted related party and connected transactions for the Company as defined under SSAP 20 and the Listing Rules, respectively. Details of the above connected transactions were set out in a circular dated 16th January, 2002 issued by the Company. The transactions were approved by the independent shareholders of the Company and LSG at their respective extraordinary general meetings held on 7th February, 2002 and the transactions were completed on 30th April, 2002.

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, 2002 HK\$'000
Non-current assets	1,732,169
Current assets	203,106
Current liabilities	(74,855)
Non-current liabilities	(96)
Minority interests	(998)
	<u>1,859,326</u>
Contingent liabilities	
Guarantees given to the Company in connection with the disposal of an associate to the Company in prior year	<u>25,000</u>

Notes to Financial Statements

31st July, 2002

19. INTERESTS IN ASSOCIATES (continued)

Six months ended
30th June, 2002
HK\$'000

Turnover	56,573
Loss before tax	(31,083)
Tax	(2,216)
Loss before minority interests	(33,299)
Minority interests	15
Net loss from ordinary activities attributable to shareholders	(33,284)

* 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, 2002.

20. LONG TERM INVESTMENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity investments, at cost	177,110	595,806	8,101	19,363
Advances to investees	291,305	292,106	290,021	295,553
	468,415	887,912	298,122	314,916
Provision for impairment	(294,884)	(348,605)	(148,000)	(96,263)
	173,531	539,307	150,122	218,653

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

Notes to Financial Statements

31st July, 2002

21. LONG TERM NOTE RECEIVABLE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Note receivable	1,100,000	1,100,000
Provision for impairment	<u>(1,100,000)</u>	<u>(1,100,000)</u>
	<u>—</u>	<u>—</u>

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

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

Pursuant to a supplemental deed entered into between the Company, Furama and the Majestic Purchasers on 27th February, 2001, the Note is repayable on the earlier of 30th November, 2002 or the lapse of the Put Options as further described in note 36(c) to the financial statements.

22. LONG TERM PREPAYMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Prepayment	280,000	280,000
Provision for impairment	<u>(86,000)</u>	<u>(86,000)</u>
	<u>194,000</u>	<u>194,000</u>

As further detailed in note 36(c) to the financial statements, the amount of HK\$280 million represents a payment made to the Majestic Purchasers. In the opinion of the directors, due to the impairment of the Majestic Properties, the Majestic Purchasers are likely to exercise the Put Options. Accordingly, the prepayment is stated at its estimated recoverable amount as at 31st July, 2002.

Notes to Financial Statements

31st July, 2002

23. SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity investments listed in Hong Kong, at market value	231	467
Unlisted equity investments, at fair value	6,722	8,882
	<u>6,953</u>	<u>9,349</u>

24. COMPLETED PROPERTIES FOR SALE

The completed properties for sale that are carried at net realisable value and included in the total balance in the Group's balance sheet amounted to HK\$8,637,000 (2001: HK\$16,484,000).

Certain completed properties for sale of the Group with carrying amount of HK\$8,195,500 (2001: HK\$16,043,000) were employed to generate operating lease rental income for the Group.

25. 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 advance. Hotel and restaurant charges are mainly settled on a cash basis and certain corporate clients maintain 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	
	2002	2001
	HK\$'000	HK\$'000
Trade debtors:		
Less than 30 days	26,958	35,040
31 - 60 days	4,131	6,934
61 - 90 days	1,318	798
Over 90 days	1,951	4,650
	<u>34,358</u>	<u>47,422</u>
Other debtors and deposits	73,758	166,401
	<u>108,116</u>	<u>213,823</u>

Notes to Financial Statements

31st July, 2002

25. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS (continued)

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade creditors:		
Less than 30 days	14,850	23,131
31 - 60 days	1,366	10,305
61 - 90 days	696	5,488
Over 90 days	324	2,490
	<u>17,236</u>	<u>41,414</u>
Other creditors, deposits received and accruals	<u>214,995</u>	<u>396,212</u>
	<u>232,231</u>	<u>437,626</u>

26. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	68,236	185,698	13,454	9,243
Time deposits	<u>263,208</u>	<u>367,777</u>	<u>191,449</u>	<u>366,509</u>
	331,444	553,475	204,903	375,752
Less amounts pledged for long term bank loan:				
Cash and bank balances	(3,778)	—	(3,778)	—
Time deposits	<u>(66,275)</u>	<u>—</u>	<u>(66,275)</u>	<u>—</u>
	<u>(70,053)</u>	<u>—</u>	<u>(70,053)</u>	<u>—</u>
Less amounts pledged for bank loans due within one year:				
Cash and bank balances	(407)	—	(407)	—
Time deposits	<u>(22,600)</u>	<u>(75,670)</u>	<u>(22,600)</u>	<u>(75,670)</u>
	<u>(23,007)</u>	<u>(75,670)</u>	<u>(23,007)</u>	<u>(75,670)</u>
Cash and cash equivalents	<u>238,384</u>	<u>477,805</u>	<u>111,843</u>	<u>300,082</u>

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

Notes to Financial Statements

31st July, 2002

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans, secured	3,279,917	3,649,150	1,422,000	1,777,500
Other loans, secured	658,400	705,000	33,400	80,000
	<u>3,938,317</u>	<u>4,354,150</u>	<u>1,455,400</u>	<u>1,857,500</u>
Bank loans repayable:				
Within one year	2,411,917	1,225,815	554,000	1,122,500
In the second year	63,500	2,423,335	63,500	655,000
In the third to fifth years, inclusive	804,500	—	804,500	—
	<u>3,279,917</u>	<u>3,649,150</u>	<u>1,422,000</u>	<u>1,777,500</u>
Other loans repayable:				
Within one year	33,400	—	33,400	—
In the second year	—	80,000	—	80,000
In the third to fifth years, inclusive	625,000	625,000	—	—
	<u>658,400</u>	<u>705,000</u>	<u>33,400</u>	<u>80,000</u>
Total bank and other borrowings	3,938,317	4,354,150	1,455,400	1,857,500
Portion classified as current liabilities	(2,445,317)	(1,225,815)	(587,400)	(1,122,500)
Long term portion	<u>1,493,000</u>	<u>3,128,335</u>	<u>868,000</u>	<u>735,000</u>

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

HK\$625,000,000 (2001: 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. The remaining amount of HK\$33,400,000 (2001: HK\$80,000,000) in secured other loans bears interest at a fixed rate per month and is repayable in full on 31st December, 2002.

Notes to Financial Statements

31st July, 2002

28. PROVISION FOR PREMIUM ON BONDS REDEMPTION

	Group and Company HK\$'000
At 1st August, 2001	473,145
Provided during the year	<u>127,547</u>
At 31st July, 2002	<u>600,692</u>

29. BONDS PAYABLE

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	740,053	891,250
Repaid during the year	—	(156,981)
Exchange realignment	<u>(28)</u>	<u>5,784</u>
At end of year	740,025	740,053
Portion due within one year classified as current liabilities	<u>(740,025)</u>	<u>—</u>
Long term portion	<u>—</u>	<u>740,053</u>

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

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

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

Notes to Financial Statements

31st July, 2002

29. BONDS PAYABLE (continued)

Pursuant to a supplemental trust deed (the "EB Supplemental Trust Deed") entered by the Company, the Issuer and the Exchangeable Bondholders on 19th January, 2001 and after certain repayments made to the Exchangeable Bondholders according to the extraordinary resolutions passed by the Exchangeable Bondholders on 4th August, 2000 (the "EB Extraordinary Resolutions"), unless previously redeemed, purchased and cancelled and 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 also redeemable at the option of the holders on 31st December, 2002 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 Bond Document at various pre-determined prices ranging from 100% of the principal amount to the Maturity Redemption Price.

Further to the above, other major terms stipulated in the EB Supplemental Trust Deed and subsisted at 31st July, 2002 are:

- (1) the Exchangeable Bondholders will share, on a pari passu and pro rata basis, with the Convertible Bondholders (as defined in note 30) the security of the following:
 - (a) a first charge over 130 million shares of HK\$0.25 each in the issued share capital of ATV beneficially owned by the Company (subject to the Exchangeable Bondholders' existing Exchange Right); and
 - (b) 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;
- (2) the Exchangeable Bondholders will also share, on a pari passu and pro rata basis, with the Convertible Bondholders and eSun (the "Parties"), the following security:
 - (a) a limited recourse second charge over 6,500 shares of HK\$1.00 each in the issued share capital of Diamond String Limited (which owns the Ritz-Carlton Hong Kong Hotel) beneficially owned by the Company; and
 - (b) a negative pledge granted by the Company, pursuant to which the Company has agreed not to create additional security over certain major properties of the Group without the prior consent of the Parties;
- (3) in addition to the option to exchange the Exchangeable Bonds for the Exchange Property, up to 15% of the outstanding principal amount at 4th August, 2000 (approximately US\$17,250,000) may be converted at the option of the Exchangeable Bondholders into ordinary shares of HK\$0.50 each in the share capital of the Company at the conversion price of HK\$0.50 per share at any time during the period from 1st September, 2000 to 31st December, 2002 (the "EB Conversion Right"); and
- (4) the Exchange Property was amended to the effect that it shall be reduced by certain repayments of principal pursuant to the EB Extraordinary Resolutions and any EB Conversion Right exercised.

Notes to Financial Statements

31st July, 2002

30. CONVERTIBLE BONDS

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	965,287	1,161,375
Repaid during the year	—	(204,758)
Exchange realignment	(37)	8,670
	<u>965,250</u>	<u>965,287</u>
At end of year	965,250	965,287
Portion due within one year classified as current liabilities	(965,250)	—
	<u>—</u>	<u>965,287</u>
Long term portion	—	965,287

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. The Convertible Bonds are unconditionally and irrevocably guaranteed by the Company.

The Convertible Bonds were issued at 100% of their principal amount and bear interest at a rate of 4% per annum payable annually in arrears on 4th August of each year.

Pursuant to the original bond document of the Convertible Bonds (the “CB Document”) and a supplemental trust deed dated 19th January, 2001, and after certain repayments made in accordance with the extraordinary resolutions (the “CB Extraordinary Resolutions”) passed by the holders of the Convertible Bonds (the “Convertible Bondholders”) on 4th August, 2000. Other major terms of the Convertible Bonds subsisted at 31st July, 2002 are as follows:

- (a) unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds are convertible into fully paid ordinary shares of HK\$0.50 each in the Company at the option of the Convertible Bondholders at a conversion price of HK\$1.10 per share at a fixed exchange rate of HK\$7.80 = US\$1.00 on conversion, at any time from 4th September, 1997 to 31st December, 2002 (the “Maturity Date”), both dates inclusive (the “CB Conversion Right”). The conversion price is subject to adjustment upon the occurrence of certain events as defined in the CB Document;
- (b) in addition to the CB Conversion Right, up to 15% of the outstanding principal amount at 4th August, 2000 (approximately US\$22,500,000) may be converted at the option of the Convertible Bondholders into ordinary shares of HK\$0.50 each in the share capital of the Company at the conversion price of HK\$0.50 per share at any time during the period from 1st September, 2000 to 31st December, 2002;
- (c) the Convertible Bondholders share, on a pari passu and pro rata basis, with the Exchangeable Bondholders, the security as described in note 29(1) and share with the Exchangeable Bondholders and eSun, on a pari passu and pro rata basis, the security as described in note 29(2);

Notes to Financial Statements

31st July, 2002

30. CONVERTIBLE BONDS (continued)

- (d) unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds are redeemable at 136.5927% of their outstanding principal amount plus interest accrued at the Maturity Date;
- (e) unless previously redeemed, purchased and cancelled or converted, LSIF 1997, under certain conditions as defined in the CB Document, may have redeemed all or some of the Convertible Bonds on or at any time after 4th August, 1999 at their Early Redemption Price together with accrued interest, with the calculation based on the formula defined in the CB Document; and
- (f) the Convertible Bonds are also redeemable at any time upon the occurrence of any events as defined in the CB Document at their Early Redemption Price together with accrued interest, with the calculation based on formula defined in the CB Document.

31. DEFERRED TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
At beginning of year	(380)	749
Arising on deemed disposal of subsidiaries	—	(1,359)
Charge for the year (note 11)	—	250
Exchange realignment	—	(20)
At 31st July	<u>(380)</u>	<u>(380)</u>

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

Group

	Provided		Not provided	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decelerated/(accelerated) capital allowances on fixed assets	(380)	(380)	2,209	29,366
Tax losses	—	—	14,810	43,789
	<u>(380)</u>	<u>(380)</u>	<u>17,019</u>	<u>73,155</u>

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

Notes to Financial Statements

31st July, 2002

32. PROVISION FOR PREMIUM ON LOAN REPAYMENT

	Group HK\$'000
At 1st August, 2001	17,500
Provided during the year	<u>35,000</u>
At 31st July, 2002	<u>52,500</u>

33. SHARE CAPITAL

	Number of shares 2002 '000	Nominal value 2002 HK\$'000	Number of shares 2001 '000	Nominal value 2001 HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	<u>10,000,000</u>	5,000,000	<u>10,000,000</u>	5,000,000
Preference shares of HK\$1.00 each	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>
		<u>6,200,000</u>		<u>6,200,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	<u>3,746,002</u>	<u>1,873,001</u>	<u>3,746,002</u>	<u>1,873,001</u>

Notes to Financial Statements

31st July, 2002

34. RESERVES

Group

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 2000:								
As previously reported	5,858,164	3,066,784	1,171,429	1,200,000	92,614	72,266	(6,951,830)	4,509,427
Prior year adjustment - note 13	—	—	—	—	62,619	—	(62,619)	—
As restated	5,858,164	3,066,784	1,171,429	1,200,000	155,233	72,266	(7,014,449)	4,509,427
Release upon disposal of investment properties	—	(300,402)	—	—	—	—	—	(300,402)
Surplus on revaluation of investment properties	—	136,195	—	—	—	—	—	136,195
Share of revaluation deficit of associates	—	(6,318)	(11,691)	—	—	—	—	(18,009)
Share of reserves of associates	—	—	—	—	3,757	—	—	3,757
Exchange realignments:								
Subsidiaries	—	—	—	—	—	3,174	—	3,174
Associates	—	—	—	—	—	2,190	—	2,190
Jointly-controlled entities	—	—	—	—	—	43	—	43
Adjustment for goodwill arising on acquisition of additional interests in subsidiaries in prior year	—	—	—	—	53,663	—	—	53,663
Release upon deemed disposal of subsidiaries	—	(277,423)	(771,989)	—	(137,233)	(13,897)	—	(1,200,542)
Net loss for the year	—	—	—	—	—	—	(1,196,182)	(1,196,182)
At 31st July, 2001 and 1st August, 2001 - page 87	5,858,164	2,618,836	387,749	1,200,000	75,420	63,776	(8,210,631)	1,993,314

Notes to Financial Statements

31st July, 2002

34. RESERVES (continued)

Group

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st July, 2001 and 1st August, 2001								
As previously reported	5,858,164	2,618,836	387,749	1,200,000	12,801	63,776	(8,148,012)	1,993,314
Prior year adjustment - note 13	—	—	—	—	62,619	—	(62,619)	—
As restated - page 86	5,858,164	2,618,836	387,749	1,200,000	75,420	63,776	(8,210,631)	1,993,314
Release upon disposal of subsidiaries	—	113,921	—	—	—	—	—	113,921
Deficit on revaluation of investment properties	—	(658,638)	—	—	—	—	—	(658,638)
Share of revaluation surplus/(deficit) of associates	—	381	(36,449)	—	—	—	—	(36,068)
Share of reserve of associates	—	—	—	—	(3,757)	—	—	(3,757)
Exchange realignments:								
Subsidiaries	—	—	—	—	—	147	—	147
Associates	—	—	—	—	—	(212)	—	(212)
Release upon disposal of associates	—	(147,390)	(351,300)	—	(71,663)	(3,429)	—	(573,782)
Net loss for the year	—	—	—	—	—	—	(1,941,508)	(1,941,508)
At 31st July, 2002	5,858,164	1,927,110	—	1,200,000	—	60,282	(10,152,139)	(1,106,583)

Notes to Financial Statements

31st July, 2002

34. RESERVES (continued)

Group

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	5,858,164	1,927,110	—	1,200,000	—	(4,393)	(7,850,870)	1,130,011
Associates	—	—	—	—	—	64,675	(2,301,269)	(2,236,594)
At 31st July, 2002	<u>5,858,164</u>	<u>1,927,110</u>	<u>—</u>	<u>1,200,000</u>	<u>—</u>	<u>60,282</u>	<u>(10,152,139)</u>	<u>(1,106,583)</u>

88

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Revaluation reserve for properties under development held for investment potential HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Reserves retained by:								
Company and subsidiaries	5,858,164	2,471,827	—	1,200,000	—	(4,540)	(6,064,218)	3,461,233
Associates	—	147,009	387,749	—	75,420	68,316	(2,146,413)	(1,467,919)
At 31st July, 2001	<u>5,858,164</u>	<u>2,618,836</u>	<u>387,749</u>	<u>1,200,000</u>	<u>75,420</u>	<u>63,776</u>	<u>(8,210,631)</u>	<u>1,993,314</u>

Notes to Financial Statements

31st July, 2002

34. RESERVES (continued)

Group

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1st August, 2001, to remain eliminated against consolidated reserves.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, 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, 2002	62,619	32,270	(149,983)
Accumulated impairment:			
At beginning of year			
As previously reported	—	—	—
Prior year adjustment - note 13	(62,619)	—	—
As restated:			
At 31st July, 2001 and as at 31st July, 2002	(62,619)	—	—
Net amount:			
At 31st July, 2002	—	32,270	(149,983)
At 31st July, 2001			
As previously reported	62,619	32,270	(149,983)
Prior year adjustment - note 13	(62,619)	—	—
As restated	—	32,270	(149,983)

Notes to Financial Statements

31st July, 2002

34. RESERVES (continued)

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, 2000	5,858,164	2,239,673	1,200,000	(5,598,783)	3,699,054
Release upon disposal of investment properties	—	(300,402)	—	—	(300,402)
Surplus on revaluation of investment properties	—	27,432	—	—	27,432
Net loss for the year	—	—	—	(1,798,029)	(1,798,029)
At 31st July, 2001 and 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	5,858,164	1,629,575	1,200,000	(10,297,700)	(1,609,961)

Notes to Financial Statements

31st July, 2002

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2002	2001
	HK\$'000	HK\$'000
Profit/(loss) from operating activities	10,621	(267,910)
Interest income	(99,167)	(174,747)
Dividend income from listed investments	—	(200)
Dividend income from unlisted investments	—	(10,989)
Depreciation	30,604	38,052
Loss on disposal of subsidiaries	296,361	—
Loss on deemed disposal of subsidiaries	—	1,044,781
Loss on disposal of interests in associates	—	1,651
Loss on disposal of fixed assets	1,582	2,421
Write off of fixed assets	—	17,394
Gain on disposal of an investment property	—	(205,402)
Loss on disposal of long term unlisted investments	90	251
Gain on disposal of a long term listed investment	—	(7,662)
Impairment of properties under development	44,267	138,652
Impairment of long term unlisted investments	62,400	71,755
Provisions for contingent losses in respect of profit guarantees	6,498	33,689
Provisions for contingent losses in respect of		
Put Options (<i>note 36(c)</i>)	—	86,000
Provision for doubtful debts	4,220	40,129
Write off of bad debts	3,075	—
Release of unrealised profit in respect of		
deemed disposal of subsidiaries	—	(412,556)
Write back of contingent loss in respect of		
a guarantee given to a bank	(71,720)	(78,141)
Exchange losses/(gains) arising on the translation of		
the principal amounts of the Exchangeable Bonds		
and Convertible Bonds	(65)	14,454
Decrease in short term investments	2,396	1,822
Decrease in completed properties for sale	7,847	144,791
Decrease in inventories	2,411	3,672
Decrease in debtors and deposits	97,326	189,754
Decrease in creditors, deposits received and accruals	(88,724)	(237,983)
Net cash inflow from operating activities	<u>310,022</u>	<u>433,678</u>

Notes to Financial Statements

31st July, 2002

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

(b) Analysis of changes in financing during the year

	Bank and other borrowings HK\$'000	Loan from a shareholder HK\$'000	Bonds payable HK\$'000	Convertible bonds HK\$'000	Convertible note HK\$'000	Minority interests HK\$'000
Balance at 1st August, 2000	4,442,589	—	891,250	2,090,820	600,000	3,233,971
Net cash inflow/(outflow)						
from financing	159,581	40,787	(22,426)	(29,251)	—	82,075
Share of net profit for the year	—	—	—	—	—	10,184
Conversion of convertible bonds of Lai Fung	—	—	—	(929,445)	—	929,445
Arising on deemed disposal of subsidiaries	(248,020)	(40,787)	—	—	(600,000)	(3,841,469)
Share of adjustment for goodwill arising on acquisition of additional interests in subsidiaries in prior year	—	—	—	—	—	(53,663)
Settlement of bonds payable through stakeholder's account	—	—	(134,555)	(175,507)	—	—
Exchange losses arising on translation	—	—	5,784	8,670	—	—
Exchange realignments	—	—	—	—	—	1,201
Balance at 31st July, 2001 and 1st August, 2001	4,354,150	—	740,053	965,287	—	361,744
Net cash outflow from financing	(415,833)	—	—	—	—	(23,410)
Share of net profit for the year	—	—	—	—	—	24,391
Dividends paid to minority shareholders	—	—	—	—	—	(11,530)
Exchange gains arising on translation	—	—	(28)	(37)	—	—
Exchange realignments	—	—	—	—	—	79
Balance at 31st July, 2002	3,938,317	—	740,025	965,250	—	351,274

Notes to Financial Statements

31st July, 2002

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

(c) Major non-cash transactions

As detailed in note 19 to the financial statements, the consideration receivable and payable under the Lai Fung Transaction and the ATV Transaction were settled through the issuance of the LSG Loan Note and the Assignment of Debt, and therefore had no effects on the Group's cash flows.

(d) Deemed disposal of interests in subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets deconsolidated:		
Fixed assets	—	28,799
Investment properties	—	3,049,823
Properties under development	—	3,359,694
Interests in associates	—	830,871
Due from Furama	—	1,500,040
Interests in jointly-controlled entities	—	50,184
Long term investments	—	182,651
Deferred tax assets	—	1,359
Short term investments	—	713
Completed properties for sale	—	113,902
Inventories	—	392
Debtors and deposits	—	117,972
Tax recoverable	—	13,103
Cash and bank balances	—	306,304
Loan from a shareholder	—	(40,787)
Creditors, deposits received and accruals	—	(340,725)
Tax payable	—	(15,188)
Interest-bearing bank and other borrowings	—	(248,020)
Long term rental deposits received	—	(8,660)
Provision for premium on convertible note redemption	—	(31,667)
Convertible note	—	(600,000)
Minority interests	—	(3,841,469)
	<u>—</u>	<u>4,429,291</u>
Loss on deemed disposal of subsidiaries	—	(1,044,781)
	<u>—</u>	<u>3,384,510</u>
Satisfied by:		
Reclassification to interests in associates	—	3,384,510
	<u>—</u>	<u>3,384,510</u>

Notes to Financial Statements

31st July, 2002

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

(d) Deemed disposal of interests in subsidiaries (continued)

The subsidiaries being deemed disposed of in the prior year utilised HK\$51,783,000 of the Group's net operating cash flows, utilised HK\$22,496,000 in respect of returns on investments and servicing of finance, paid HK\$3,095,000 tax, utilised HK\$201,745,000 for investing activities and contributed HK\$192,529,000 to financing activities. The consolidated turnover and loss attributable to shareholders of the Company contributed by the two deconsolidated subsidiaries for the prior year amounted to HK\$127,669,000 and HK\$13,392,000, respectively.

	2002 HK\$'000	2001 HK\$'000
Analysis of net outflow of cash and cash equivalents in respect of the exclusion of subsidiaries from consolidation	—	306,304

(e) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Investment properties	580,096	—
Properties under development	40,008	—
Debtors and deposits	1,086	—
Cash and bank balances	704	—
Creditors, deposits received and accruals	(7,441)	—
Release of investment property revaluation reserve	113,921	—
	728,374	—
Loss on disposal	(296,361)	—
	432,013	—
Satisfied by:		
Cash	432,013	—

The subsidiaries disposed of during the year contributed HK\$1,781,000 of the Group's net operating cash flows, utilised HK\$5,067,000 in respect of returns on investments and servicing of finance and utilised HK\$5,104,000 for investing activities, but had no significant impact on the Group's cash flows for financing activities and payment of tax.

The subsidiaries disposed of during the year contributed turnover of HK\$28,121,000 and net profit of HK\$16,281,000 to the current year consolidated profit and loss account.

Notes to Financial Statements

31st July, 2002

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

(e) Disposal of subsidiaries (continued)

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration received	432,013	—
Cash and bank balances disposed of	(704)	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>431,309</u>	<u>—</u>

36. COMMITMENTS

Other than as disclosed in note 38(b) to the financial statements, the Group and the Company had the following commitments not provided for in the financial statements at the balance sheet date:

(a)	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Capital commitments:				
Contracted for	27,234	24,224	—	—
Authorised, but not contracted for	2,980	—	—	—
	<u>30,214</u>	<u>24,224</u>	<u>—</u>	<u>—</u>

(b) Pension commitments

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

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, no contributions by the Group were necessary from December 1999 to May 2001 and from thereafter up to 30th November, 2002, the rate of contributions to be made by the Group should be adjusted to 8.5% of the employees' basic salaries.

Notes to Financial Statements

31st July, 2002

36. COMMITMENTS (continued)

(b) Pension commitments (continued)

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.

(c) Grant of Put Options

Upon the completion of the sale and purchase agreement of Fortune Sign (the "Completion") as further detailed in note 21 to the financial statements, 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. The Put Options cannot be exercised by the Majestic Purchasers unless both elements are exercised simultaneously.

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") and was able to be exercised at any time and from time to time by the Majestic Purchasers giving notice in writing to Furama of their intention to do so 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 any of the events specified in the Option Deed (the "Relevant Event"), including, inter alia, Mr. Lim Por Yen, Ms. U Po Chu, Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming and their respective associates, related trusts and companies controlled by them (the "Lim Family") ceasing to beneficially own, whether directly or indirectly, at least 35% of the entire issued share capital of LSG from time to time, or LSG, together with the Lim Family, ceasing to beneficially own, whether, directly or indirectly, at least 35% of the entire issued share capital of the Company from time to time, or the Company ceasing to beneficially own at least 51% of the entire 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 in, 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 Majestic 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, 2002

36. COMMITMENTS (continued)

(c) Grant of Put Options (continued)

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

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.

A second supplemental 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 would be from 25th May, 2000 to 28th February, 2001 (both dates inclusive).

On 27th February, 2001, a third 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 made by Furama to the Majestic Purchasers on 28th February, 2001.

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	2,355,431	2,365,501
Associates	269,194	274,799	269,194	274,799
Investee companies	—	4,301	—	4,301
	<u>269,194</u>	<u>279,100</u>	<u>2,624,625</u>	<u>2,644,601</u>
Guarantees given in connection with the issue of Convertible Bonds	—	—	965,250	965,287
Guarantees given in connection with the issue of Exchangeable Bonds	—	—	740,025	740,053
	<u>269,194</u>	<u>279,100</u>	<u>4,329,900</u>	<u>4,349,941</u>

Notes to Financial Statements

31st July, 2002

37. CONTINGENT LIABILITIES (continued)

- (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.

98

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

Notes to Financial Statements

31st July, 2002

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) and certain completed properties for sale (note 24) 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	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	277,902	292,575	146,641	151,936
In the second to fifth years, inclusive	214,228	278,815	86,397	133,611
	<u>492,130</u>	<u>571,390</u>	<u>233,038</u>	<u>285,547</u>

(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	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	6,088	51,733	3,854	2,400
In the second to fifth years, inclusive	9,357	4,100	7,596	4,100
	<u>15,445</u>	<u>55,833</u>	<u>11,450</u>	<u>6,500</u>

Notes to Financial Statements

31st July, 2002

39. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs and Interpretations 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, a prior year adjustment (note 13) has been made and 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 and authorised for issue by the board of directors on 8th November, 2002.