



LAI SUN DEVELOPMENT

LAI SUN DEVELOPMENT COMPANY LIMITED

Interim Report 2002-2003

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS

Lim Por Yen (*Honorary Chairman*)

Lam Kin Ngok, Peter (*Chairman and President*)

Lau Shu Yan, Julius

Wu Shiu Kee, Keith

Lam Kin Ming

U Po Chu

Chiu Wai

Shiu Kai Wah

David Tang*

Lam Bing Kwan* (*appointed on 25th July, 2002*)

Tong Yuk Lun, Paul resigned as a Director on 1st May, 2002

Law Man Fai resigned as a Director on 25th July, 2002

* *Independent Non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

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Stock code on Hong Kong Stock Exchange: 488

RESULTS

The Board of Directors of Lai Sun Development Company Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st January, 2003 were as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st January, 2003

	Notes	Six months ended	
		31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
TURNOVER	3	548,793	546,515
Cost of sales		(258,063)	(220,525)
Gross profit		290,730	325,990
Other revenue		43,580	61,850
Administrative expenses		(129,387)	(223,524)
Other operating income/(expenses), net		18,690	(8,622)
PROFIT FROM OPERATING ACTIVITIES	4	223,613	155,694
Finance costs	5	(260,470)	(306,232)
Share of profits and losses of associates		(9,920)	(116,452)
Impairment in value of associates		(26,854)	—
LOSS BEFORE TAX		(73,631)	(266,990)
Tax	6	(15,017)	(10,552)
LOSS BEFORE MINORITY INTERESTS		(88,648)	(277,542)
Minority interests		(17,229)	(12,015)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(105,877)	(289,557)
LOSS PER SHARE	7		
Basic		HK\$0.03	HK\$0.08
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

31st January, 2003

	Notes	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,847,982	1,294,943
Investment properties		5,182,110	4,987,860
Properties under development		1,400	116,592
Interests in associates	9	2,108,122	2,082,375
Long term investments		133,619	173,531
Long term note receivable		—	—
Long term prepayment		—	194,000
Pledged cash and bank balances and time deposits	10	115,950	70,053
		9,389,183	8,919,354
CURRENT ASSETS			
Short term investments		7,595	6,953
Completed properties for sale		6,977	8,637
Inventories		10,580	9,587
Debtors and deposits	11	153,208	108,116
Pledged cash and bank balances and time deposits	10	17,485	23,007
Cash and cash equivalents		130,969	238,384
		326,814	394,684
CURRENT LIABILITIES			
Creditors, deposits received and accruals	11	201,320	232,231
Tax payable		98,966	103,930
Interest-bearing bank and other borrowings		2,369,436	2,445,317
Provision for premium on bonds redemption		642,585	600,692
Short term bonds payable		740,025	740,025
Short term convertible bonds payable		965,250	965,250
Amount due to an associate		1,500,040	1,500,040
		6,517,622	6,587,485
NET CURRENT LIABILITIES		(6,190,808)	(6,192,801)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,198,375	2,726,553
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(5,445)	(380)
Long term rental deposits received		(49,472)	(62,981)
Interest-bearing bank and other borrowings		(2,061,500)	(1,493,000)
Provision for premium on loan repayment		(70,000)	(52,500)
		(2,186,417)	(1,608,861)
		1,011,958	1,117,692
CAPITAL AND RESERVES			
Issued capital		1,873,001	1,873,001
Reserves		(1,215,467)	(1,106,583)
		657,534	766,418
MINORITY INTERESTS		354,424	351,274
		1,011,958	1,117,692

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2003

	Six months ended 31st January, 2003 (Unaudited)							Total HK\$'000
	Issued capital HK\$'000	Investment				Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	
		Share	property	Capital				
		premium account HK\$'000	revaluation reserve HK\$'000	redemption reserve HK\$'000				
At 31st July, 2002 and 1st August, 2002 (Audited)	1,873,001	5,858,164	1,927,110	1,200,000	60,282	(10,152,139)	766,418	
Release upon disposal of subsidiaries	—	—	—	—	(2,114)	—	(2,114)	
Addition costs to investment properties charged against the investment property revaluation reserve	—	—	(109)	—	—	—	(109)	
Exchange realignments:								
Subsidiaries	—	—	—	—	118	—	118	
Associates	—	—	—	—	(902)	—	(902)	
Net loss for the period	—	—	—	—	—	(105,877)	(105,877)	
At 31st January, 2003 (Unaudited)	1,873,001	5,858,164*	1,927,001*	1,200,000*	57,384*	(10,258,016)*	657,534	

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* The aggregate of these reserve account balances represented the consolidated reserves with a debit balance of HK\$1,215,467,000 (31st July, 2002: HK\$1,106,583,000) in the condensed consolidated balance sheet.

	Six months ended 31st January, 2002 (Unaudited)								
	Issued capital HK\$'000	Share premium account HK\$'000	Revaluation reserve for properties under Investment development			Capital redemption reserve HK\$'000	Exchange Capital fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
			property	held for					
			revaluation reserve HK\$'000	investment potential HK\$'000					
At 31st July, 2001 and 1st August, 2001 (Audited)	1,873,001	5,858,164	2,618,836	387,749	1,200,000	75,420	63,776	(8,210,631)	3,866,315
Deficit on revaluation of investment properties	—	—	(180,539)	—	—	—	—	—	(180,539)
Exchange realignments:									
Subsidiaries	—	—	—	—	—	—	123	—	123
Associates	—	—	—	—	—	—	960	—	960
Net loss for the period	—	—	—	—	—	—	—	(289,557)	(289,557)
At 31st January, 2002 (Unaudited)	1,873,001	5,858,164	2,438,297	387,749	1,200,000	75,420	64,859	(8,500,188)	3,397,302

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2003

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
NET CASH USED IN OPERATION ACTIVITIES	(98,560)	(166,911)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	(499,557)	69,144
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	490,558	(134,031)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(107,559)	(231,798)
Cash and cash equivalents at beginning of period	238,384	477,805
Effect of foreign exchange rate changes, net	144	374
CASH AND CASH EQUIVALENTS AT END OF PERIOD	130,969	246,381
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	54,243	60,476
Non-pledged time deposits with original maturity of less than three months when acquired	76,726	185,905
	130,969	246,381

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

- (a) The condensed consolidated financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.
- (b) The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$106 million for the six-month period ended 31st January, 2003.

The Group is currently having ongoing discussions with all of its creditors with the objective of re-equipping the Group with a cleaner bill of financial health. On 17th December, 2002, meetings of the US\$115 million exchangeable guaranteed bonds (the "Exchangeable Bonds") and the US\$150 million convertible guaranteed bonds (the "Convertible Bonds") (collectively, the "Bonds") were held at which, among other things, the resolutions to approve the deferral of the Group's repayment obligation under the Exchangeable Bonds and the Convertible Bonds to 31st March, 2003 were duly passed. The principal lending banks of the Group had also agreed to reschedule the loan principal repayments of the Group to not earlier than 31st March, 2003.

As at the date of this report, the Company has yet to reach an agreement with the Bondholders and the Group's other creditors on the terms of a comprehensive restructuring of the Group's debt, including a restructuring of the Bonds.

As the Convertible Bonds were due to be redeemed on 31st March, 2003 but were not so redeemed and, in consequence of the Company failing to satisfy, on the same day, certain put rights exercised by certain of the Exchangeable Bondholders in respect of their holdings of Exchangeable Bonds, which in turn, is likely to result in the Exchangeable Bonds becoming due for redemption in their entirety, the Company will default on both the Convertible Bonds and the Exchangeable Bonds. This default is, in turn, likely to constitute a technical event of default under the Group's principal banking facilities.

However, the Company is continuing its discussions with the Bondholders and its other creditors and the Directors believe that agreement on a comprehensive debt restructuring is capable of being achieved during the next quarter. In the meantime, the Directors expect that the Group will enter into a period of informal standstill, during which the Bondholders and the Group's other creditors, whilst reserving all of their rights, will resist taking action to enforce their respective security pending the outcome of discussions with the Company on the comprehensive debt restructuring.

On the assumption that the Group will be able to secure the agreement of all of its creditors to finalise the form and structure of a debt restructuring program and, at the same time, to continue the successful orderly disposals of the necessary assets of the Group and to raise funds through other financing or refinancing arrangements to generate additional positive cashflow, the Directors believe that the Group will have sufficient working capital for its requirements for the ensuing year. Otherwise, the Directors of the Company are of the opinion that the Group would not have adequate funds to enable it to operate as a going concern in the foreseeable future.

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.

2. ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 (Revised) "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st July, 2002, except that the following new or revised SSAPs effective for accounting periods commencing on or after 1st January, 2002 are adopted for the first time in the preparation of the current period's unaudited condensed consolidated interim financial statements.

The following recently issued and revised SSAPs are effective for the first time for the current period's financial statements.

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 25 (Revised) : "Interim financial reporting"
- SSAP 34 : "Employee benefits"

The adoption of these SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement but has had no significant effect on the results for the current and prior accounting periods.

Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under cash flows from returns on investments and servicing of finance, are classified as operating activities, unless they can be separately identified with investing or financing activities. The comparative figures have been reclassified to conform with the current period's presentation.

Apart from aforementioned, no further adjustments relating to prior periods have been required as a result of the adoption of the new and revised SSAPs.

3. SEGMENTAL INFORMATION

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(a) Business Segments

The following table presents revenue and profit/(loss) for the Group's business segments:

	Six months ended 31st January, 2003 (Unaudited)					
	Property development and sales	Property investment	Hotel and restaurant operations	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	97,315	198,042	235,863	17,573	—	548,793
Intersegment sales	—	1,818	61	11,247	(13,126)	—
Other revenue	25	581	262	115	—	983
Total	97,340	200,441	236,186	28,935	(13,126)	549,776
Segment results	(1,497)	159,111	57,467	29,524	—	244,605
Interest income and unallocated gains						42,597
Unallocated expenses						(63,589)
Profit from operating activities						223,613

	Six months ended 31st January, 2002 (Unaudited)					
	Property development and sales <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Hotel and restaurant operations <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:						
Sales to external customers	5,661	204,655	296,129	40,070	—	546,515
Intersegment sales	—	4,391	—	—	(4,391)	—
Other revenue	1,124	1,358	2,206	1,507	—	6,195
Total	6,785	210,404	298,335	41,577	(4,391)	552,710
Segment results	(1,461)	157,845	18,813	(22,006)	—	153,191
Interest income and unallocated gains						55,655
Write back of contingent loss in respect of a guarantee given to a bank						39,071
Impairment of long term unlisted investments						(27,000)
Unallocated expenses						(65,223)
Profit from operating activities						155,694

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(b) Geographical Segments

The following table presents revenue for the Group's geographical segments:

	Six months ended 31st January, 2003 (Unaudited)			
	Hong Kong <i>HK\$'000</i>	Elsewhere in the People's Republic of China (the "PRC") <i>HK\$'000</i>	Vietnam <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:				
Sales to external customers	461,430	5,316	82,047	548,793
Other revenue	679	91	213	983
Total	462,109	5,407	82,260	549,776

	Six months ended 31st January, 2002 (Unaudited)			
	Hong Kong	Elsewhere in the People's Republic of China	Vietnam	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:				
Sales to external customers	446,163	33,285	67,067	546,515
Other revenue	5,547	4	644	6,195
Total	451,710	33,289	67,711	552,710

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Depreciation	13,583	14,238
Gain/(loss) on disposal of fixed assets	(730)	4
Gain/(loss) on disposal of subsidiaries	(12,318)	2,346
Write back of contingent loss in respect of a guarantee given to a bank	—	(39,071)

5. FINANCE COSTS

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Interest on bank and other borrowings wholly repayable within five years	117,018	136,585
Interest on amount due to an associate	36,535	37,809
Interest on bonds payable	18,759	18,811
Interest on convertible bonds payable	20,607	19,204
Total interest expenses	192,919	212,409
<i>Less: Interest capitalised in properties under development</i>	—	(17,732)
	192,919	194,677
Other finance costs:		
Provision for premium on bonds redemption	41,893	61,648
Provision for premium on loan repayment	17,500	17,500
Bank charges and refinancing charges	8,158	32,407
Total	260,470	306,232

6. TAX

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

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.

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Provision for Hong Kong profits tax for the period	16,618	10,371
Share of tax attributable to associates:		
Hong Kong	(1,352)	461
Outside Hong Kong	(249)	(280)
	(1,601)	181
Tax charge for the period	15,017	10,552

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$105,877,000 (2002: HK\$289,557,000) and the weighted average number of 3,746,002,000 (2002: 3,746,002,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the current and prior periods have not been disclosed, as the potential ordinary shares of the Group outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

8. RELATED PARTY TRANSACTIONS

	Notes	Six months ended	
		31/1/2003 (Unaudited) HK\$'000	31/1/2002 (Unaudited) HK\$'000
Interest income from associates	(i)	38,478	44,644
Interest expenses to an associate	(ii)	36,535	37,809
Rental income from a related company	(iii)	3,119	4,920
Rental expenses to an associate	(iv)	—	48,633

Notes:

- (i) The interest income from associates arose from advances made thereto. Interest was charged at the prevailing marketing rates.
- (ii) Pursuant to the debt deed, interest was charged on the outstanding loan principal at 5% per annum for the period up to 31st December, 2002. The loan was due on 31st December, 2002 and remained outstanding as at the date of this report. Interest was accrued at 4% per annum from 1st January, 2003 onwards.

- (iii) Rental income was received from a subsidiary of the Company's controlling shareholder, and was based on terms stated in the lease agreements.
- (iv) The rental expenses were paid to an associate and were based on terms stated in the lease agreement. The lease agreement was terminated in November 2001.

9. INTERESTS IN ASSOCIATES

Included in the Group's interest in associates as at 31st January, 2003 was the Group's share of net assets of eSun Holdings Limited ("eSun") and its subsidiaries (the "eSun Group").

As at 31st December, 2002, there was an amount due to the eSun Group by Furama Hotel Enterprises Limited, a wholly-owned subsidiary of the Company, of HK\$1,500,040,000 (the "Debt"). In respect of the recoverability of the Debt, the directors of eSun considered that pending the outcome of the debt restructuring program of the Company as detailed in note 1 to the condensed consolidated financial statements, eSun is uncertain as to the extent of the recovery of the Debt. However, in the absence of any reliable information the directors of eSun are unable to estimate the amount of any specific provision against such balance at the current time.

As at 31st December, 2002, the film rights of the eSun Group represented all rights, titles and interests in 96 films (the "96 Film Rights") of HK\$93,606,000 and the television rights to another 20 films for a period of 10.5 years ("20 Film Rights") of HK\$19,503,000. The directors of eSun have engaged an independent third party (the "Valuer") to perform a valuation (the "Valuation") on the 96 Film Rights as at 31st December, 2002. Having regard to the Valuation, which indicated that the fair value of the 96 Film Rights as at 31st December, 2002 was above their costs as stated in the eSun Group's consolidated financial statements and having regard to the current market conditions, the directors of eSun are of the opinion that there is no impairment in the Group's film rights as at 31st December, 2002.

The auditors of eSun has issued a disclaimer opinion on the financial statements of the eSun Group. In their report, the auditors state that (i) they are unable to obtain sufficient reliable information to satisfy themselves as to the recoverability of the Debt and (ii) they have been unable to carry out the auditing procedures required by the Statement of Auditing Standards 520 "Using the Work of an Expert", to satisfy themselves as to (1) the competence and objectivity of the Valuer; and (2) the adequacy of the scope of the Valuer's work, as to the 96 Film Rights and they have also been unable to obtain sufficient reliable information or carry out alternative auditing procedures to satisfy themselves as to the eSun's directors' assessment in connection with the carrying amount of the 20 Film Rights.

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As mentioned above, included in the Group's share of net assets of associates was the Group's share of net assets of the eSun Group, which included the Debt, whilst the Debt was also included in the Group's balance sheet as current liabilities. As the effect of any provision for the recoverability of the Debt to be made by eSun shall be reversed in the condensed consolidated financial statements of the Group, the directors of the Company considered that there was no material impact on the Group's condensed consolidated financial statements in respect of the qualified opinion issued by the auditors of eSun. As regards the film rights of the eSun Group, having considering all the facts stated above, the directors of the Company concurred with the view of eSun's directors on the assessment of the carrying amount of the film rights and concluded that no adjustments need to be made in the Group's condensed consolidated financial statements.

10. PLEDGED CASH AND BANK BALANCES AND TIME DEPOSITS

As at 31st January, 2003, HK\$133,435,000 (as at 31st July, 2002: HK\$93,060,000) of the cash and bank balances and time deposits of the Group were pledged to banks to secure loan and other banking facilities granted to the Group.

11. 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 Company and its respective subsidiary companies operate. Sales proceeds receivables from sale of properties are settled in accordance with the terms of respective contracts. Rental and related charges in respect of leasing of properties are payable by tenants in advance. Hotel and restaurant charges are mainly settled on a cash basis with the exception of certain corporate clients who are maintaining credit accounts with the respective subsidiaries, settlement of which is in accordance with respective agreements.

An aged analysis of the trade debtors of the Group as at 31st January, 2003 and 31st July, 2002 are as follows:

	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
Trade debtors:		
Less than 30 days	37,251	26,958
31 — 60 days	12,556	4,131
61 — 90 days	1,309	1,318
Over 90 days	1,827	1,951
	52,943	34,358
Other debtors and deposits	100,265	73,758
	153,208	108,116

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- (b) An aged analysis of the trade creditors of the Group as at 31st January, 2003 and 31st July, 2002 are as follows:

	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
Trade creditors:		
Less than 30 days	18,683	14,850
31 — 60 days	3,507	1,366
61 — 90 days	84	696
Over 90 days	989	324
	23,263	17,236
Other creditors, deposits received and accruals	178,057	214,995
	201,320	232,231

12. CONTINGENT LIABILITIES

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

	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to associates	249,250	269,194

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

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

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13. COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

As at 31st January, 2003, the Group had the following commitments not provided for in the financial statements:

	Six months ended	
	31/1/2003 (Unaudited) HK\$'000	31/7/2002 (Audited) HK\$'000
Commitments for hotel property renovation and property development expenditure		
Contracted for	8,550	27,234
Authorised, but not contracted for	2,050	2,980
	10,600	30,214

14. POST BALANCE SHEET EVENTS

- (a) On 29th January, 2003, the Company announced that the Company had requested the directors of eSun Holdings Limited (“eSun”), a 49.99%-owned associate of the Group, to put forward a proposal (the “Proposal”) for the privatization of eSun by the Company by way of a scheme of arrangement (the “Scheme”) between eSun and the holders of the shares of HK\$0.50 each in the capital of eSun (the “eSun Shares”), other than the members of the Group, under Section 99 of the Companies Act 1981 of Bermuda (as amended) involving cancellation and extinguishment of all the eSun Shares not held by the members of the Group. If the Proposal becomes effective, eSun will become a wholly-owned subsidiary of the Group. A circular dated 31st March, 2003 (the “Circular”) setting out the details of the Proposal was dispatched to the shareholders of the Companies. As set out in the circular, the Scheme will become effective subject to, inter alia, the followings:
- (i) the approval of the Scheme by a majority in number representing not less than three-fourths in value of the eSun Shares held by the holders of the eSun Shares other than members of the Group (the “Scheme Shareholders”) present and voting at a meeting (the “Court Meeting”) of the Scheme Shareholders, to be held in Hong Kong on 30th April, 2003 provided that:
 - (1) the Scheme is approved by the Scheme Shareholders other than the parties acting in concert with the Company (the “Independent eSun Shareholders”) holding at least 75% in value of those Scheme Shares that are vote at the Court Meeting; and
 - (2) the Scheme is not disapproved by the Independent eSun Shareholders at the Court Meeting holding more than 10% in value of all the eSun Shares held by the Independent eSun Shareholders;
 - (ii) approval by the Bondholders of the Proposal; and
 - (iii) approval of the Proposal by the Company’s shareholders.

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Please refer to the Circular for more details.

- (b) On 21st March, 2003, the Company announced that Peakflow Profits Limited (“Peakflow”), a wholly-owned subsidiary of the Group, had entered into an agreement on 21st March, 2003 (the “Bayshore Agreement”) with Grand Design Development Limited (“Grand Design”), in relation to the reduction of indebtedness owing by Peakflow to Grand Design by way of transfer of a 20% shareholding interest in Bayshore Development Group Limited (“Bayshore”), a company owns the site at 1 Connaught Road, Central, Hong Kong on which a building is under construction, and an assignment of HK\$600 million worth of shareholders’ loans plus accrued interest owing by Bayshore to effect a reduction of indebtedness in the principal amount of approximately HK\$416.7 million owing to Grand Design together with the accrued loan repayment premium of HK\$46.6 million. Accordingly, the aggregate purchase price paid by Grand Design was approximately HK\$463.3 million.

Although the completion of the Bayshore Agreement took place on 21st March, 2003, it remains conditional, by way of a condition subsequent, on simple majority of the shareholders of the Company approving the Bayshore Agreement and the transactions contemplated therein in accordance with the requirements of the Stock Exchange and the Listing Rules. Accordingly, if the approval from the shareholders of the Company is not obtained, the parties to the Bayshore Agreement have agreed to do all things necessary to unwind the transaction and to put the parties in a position as if the transaction had not taken place. Bayshore was owned prior to completion of the Bayshore Agreement as to 70% by Grand Design and 30% by Peakflow. Upon completion of the Bayshore Agreement, the Group, through Peakflow, continues to hold a 10% interest in Bayshore and Peakflow remains indebted to Grand Design in the principal amount of approximately HK\$208.3 million, secured on, among other things, Peakflow’s remaining interest in Bayshore.

Please refer to the circular dated 14th April, 2003 dispatched to the shareholders of the Company in relation to the above transaction for more details.

INTERIM ORDINARY DIVIDEND

The Directors do not recommend the payment of an interim ordinary dividend for the financial year ending 31st July, 2003. No interim ordinary dividend was declared in respect of the previous corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded a net attributable loss of HK\$105.9 million for the six months ended 31st January, 2003. From an operational perspective, while the Group continued to suffer from a decline in rental income as well as provision taken in respect of its development landbank, this was more than compensated by the improved performance delivered by the hotel operations, as well as lower interest expenses thanks to the continued softening of global interest rates. Furthermore, the Group's share of loss attributable to its 49.9% owned eSun Holdings Limited was reduced to HK\$17.7 million versus HK\$61.6 million recorded in the same period last year.

The period under review witnessed a further deterioration of the global economic climate. In addition to the prevailing asset deflationary cycle, consumer and investment sentiments have further been chilled by the US' potential invasion of Iraq which eventually materialized. In sympathy with such worldwide economic trends, the Hong Kong's business environment remained difficult. The lowering of local interest rates, while lessened the interest burden of home owners, it also rendered a curtailment in personal consumption given the territory's inherently high savings rate. Investment enthusiasm in China to which Hong Kong serves as a business conduit becomes the solitary bright spot in an otherwise stagnant situation. On the real estate front, the introduction of stimulative packages by the Hong Kong Government proved to be unconvincing as capital values across all sectors continued to test lower grounds, with the pressure on Grade A office rentals being most evident.

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The Group registered a 5% decline in rental income during the first six months of the financial year, mainly attributable to the disposal of Crocodile Houses 1 and 2 which was completed in July 2002. The average occupancy rate continued to stay at a decent 95%. As for property sales, the Group completed the disposal of two adjoining sites situated at 51-53 Station Lane and 84-86 Wuhu Street in September 2002. Meanwhile, sales of the Waterfront (10% owned) continued to see reasonable progress although prices were under pressure due to the launch of various projects in the vicinity. Elsewhere, construction works for the Furama Court and Rolling Hills Phase II (in which the Group maintains respective 50% interest) have been progressing well and both are targetted for pre-sale in early 2004. Finally as a subsequent event, the Group have sold two-thirds of its 30% interest in the 1 Connaught Road Central (the former Furama Hotel) redevelopment project for a total consideration of approximately HK\$463 million. The transaction, which is subject to approval by shareholders, will help reduce the indebtedness of the Group and facilitate the overall restructuring program whose details will be mentioned in a later section.

The Group's hotel operations continued to turn in positive contributions to earnings, with the overseas hotels and hotel management being the key income drivers. It is particularly encouraging to record steadily improving performance of the Group's hotel interests in Vietnam - both the Caravelle Hotel (26%) and The Furama Resort Danang (63%) have firmly established as one of the top business hotels and hotel resorts in Asia respectively. Such favourable trends will, however, bound to be perturbed by the lately atypical pneumonia outbreak which will undoubtedly cause a substantial contraction in global travel volume.

As for the performance of various associates of the Group, eSun Holdings Limited (“eSun”) announced a net loss of HK\$68.8 million for the year ended 31st December, 2002 (2001: Loss of HK\$181.7 million). The improved performance was mainly due to the reduced losses arisen from the disposal of short term investments, as well as a decrease in provision taken in reflection of the diminution in value for certain internet related assets.

Prospects

Hong Kong’s economy looks poised to enter into a period of further slowdown as the double whammy of a deflationary government budget and the recent outbreak of atypical pneumonia will undoubtedly prove to be devastating. In particular, the prospects of private consumption look bleak as it bears the brunt of the prevailing adversities, while investment demand will also continue to show signs of weakness in view of the cautious sentiment.

Given such economic portrayal, real estate prices could hardly make any headway going forward. From a sectoral standpoint, the residential sector should fare better given the more favourable supply outlook, while office rentals will remain under pressure, although the pace and extent of downward adjustment are expected to be more subdued. The Group’s investment property portfolio, despite its superior location, will be negatively affected by such unfavourable developments.

Similarly, the shrinkage of global travel will also mar the short term outlook of Furama Hotels and Resorts International Limited (“FHRI”), the hotel management vehicle of the Group. Nonetheless, given its unrivalled management experience, we remain guardedly optimistic over FHRI’s capability to secure more hotel management contracts in Hong Kong and the rest of Asia. The Government’s priority of promoting the tourism industry together with the opening of Disneyland in 2005/2006 should also augur well for this division.

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As for the prospects of eSun, eSun has successfully transformed itself into a multimedia production powerhouse, having established significant presence in the movie, TV and other forms of entertainment productions through its investments in Media Asia Holdings Ltd., East Asia Satellite Television Limited, to name a few. In tandem with the WTO entry, China’s media and advertising market are destined to show quantum leap in the years ahead. This in turn should present excellent opportunities for the well equipped eSun to fully capitalize on this evolving trend and generate meaningful contributions in the years ahead.

Group Restructuring

The Group continued to make reasonable progress in respect of its overall debt restructuring program. In particular, the Board would like to report some of the key events in the run-up to 31st March, 2003, as well as the projected timetable looking forward:

1. Between 1st January, 2003 and 31st March, 2003, the Group agreed a formal standstill with our Exchangeable Bondholders and Convertible Bondholders to whom the outstanding principal amount of HK\$1,705 million is owed. During this period, the Group proposed a Scheme of Arrangement to privatise eSun at an offer price of HK\$0.28 per share.

2. The proposed privatisation of eSun, if successful, would allow the Company to eliminate, on a consolidated basis, inter-company indebtedness of approximately HK\$1,500 million. The exercise is subject to a number of conditions, the principal one being eSun independent shareholder approval. As a matter of record, the eSun's independent financial adviser has recommended shareholders to reject the offer.
3. From 1st April, 2003, the Group will enter a period of informal standstill. The Directors expect this position to subsist, pending the outcome of the vote on the eSun privatisation and, if unsuccessful, the implementation of a comprehensive debt restructuring plan incorporating alternative arrangements for settling the indebtedness due to eSun. In this regard, the Directors are working with the Company's advisers on a proposal satisfactory and acceptable to both Bondholders and, if necessary, eSun.
4. During this informal standstill period, the Directors believe that the Bondholders, eSun and the secured creditors will not take action to ensure a stable platform for the daily operations of the Group and the imminent completion of transactions such as the disposal of its 32.75% interest in Asia Television Limited ("ATV sale"). The ATV sale, which was approved by bondholders and shareholders in December 2002, will be completed in the second quarter of 2003.

Liquidity and Financial Resources

As at 31st January, 2003, consolidated bank and other borrowings, inclusive of the amount due to eSun Holdings Limited ("eSun") of HK\$1,500 million, bond payables, bond redemption premium and loan repayment premium of the Group amounted to HK\$8,349 million (31st July, 2002: HK\$7,797 million). Consolidated net assets of the Group as at the same date was HK\$658 million (31st July, 2002: HK\$766 million). The resultant debt to equity ratio increased further to 12.7. The maturity profile of the bank and other borrowings was spread over a period of 3 years with HK\$6,217 million repayable or renewable within one year, HK\$1,437 million repayable or renewable between 1 to 2 years and HK\$695 million repayable or renewable between 2 to 3 years.

As referred to in note 1 to the condensed consolidated financial statements above, the Company is continuing its discussions with the Bondholders and its other creditors and the Directors believe that agreement on a comprehensive debt restructuring is capable of being achieved during the next quarter. In the meantime, the Directors expect that the Group will enter into a period of informal standstill, during which the Bondholders and the Group's other creditors, whilst reserving all of their rights, will resist taking action to enforce their respective security pending the outcome of discussions with the Company on the comprehensive debt restructuring.

On the assumption that the Group will be able to secure the agreement of all of its creditors to finalise the form and structure of a debt restructuring program and, at the same time, to continue the successful orderly disposals of the necessary assets of the Group and to raise funds through other financing or refinancing arrangements to generate additional positive cashflow, the Directors believe that the Group will have sufficient working capital for its requirements for the ensuing year. Otherwise, the Directors of the Company are of the opinion that the Group would not have adequate funds to enable it to operate as a going concern in the foreseeable future.

As at 31st January, 2003, certain investment properties with carrying value of approximately HK\$5,175 million and certain fixed assets with carrying value of approximately HK\$1,471 million were pledged to banks to secure banking facilities granted to the Group. In addition, the entire beneficial holding by the Group of 285,512,791 ordinary shares of eSun, the entire holding of the shares of Peakflow Profits Limited together with its 30% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower project (please refer to note 14 to the condensed consolidated financial statements above for the recent transaction relating to the project), the entire holding of the shares of Infoway Limited, a company which holds 125,450,000 shares of Asia Television Limited (“ATV”) and certain shares of other subsidiaries, associates and investee companies held by the Group were also pledged to banks and other lenders to secure loan facilities granted to the Group. In addition, pursuant to the terms and conditions of the Exchangeable Bonds and the Convertible Bonds, the Exchangeable Bondholders share on a pari passu and pro rata basis with the Convertible Bondholders the security charge over another 130,000,000 shares of ATV beneficially owned by the Company (subject to the Exchangeable Bondholders’ existing exchangeable rights) and a second charge over 285,512,791 shares of eSun beneficially owned by the Company. The Exchangeable Bondholders also share on a pari passu and pro rata basis with the Convertible Bondholders and eSun the security of a limited recourse second charge over 6,500 shares of Diamond String Limited (which owns The Ritz-Carlton Hong Kong) beneficially owned by the Company. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

The Group’s principal sources of funding comprise mainly internal funds generated from its business operations such as property rental income, proceeds from the sale of investment and development properties and revenue from hotel and restaurant operations.

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The Group continued to adopt a prudent approach in the management of foreign exchange and interest rate exposures. The revenue of the Group was mainly in Hong Kong dollars. The Directors believed that the currency peg against US dollar would be maintained in the foreseeable future. The majority of the Group’s borrowings were denominated either in Hong Kong dollars or US dollars thereby reducing exposure to undesirable exchange rate fluctuations. On the interest rate front, while all of the bond debts were fixed rate debts, the majority of the bank borrowings were maintained as floating rate debts. As a result, a balanced portfolio of fixed and floating rate debts was maintained to hedge against interest rate volatilities.

Employees and Remuneration Policies

The Group employed a total of approximately 2,000 (as at 31st July, 2002: 1,700) employees as at 31st January, 2003. The increase in headcount is mainly due to the acquisition of the Majestic Hotel and Majestic Centre at 348 Nathan Road, Kowloon, Hong Kong during the period. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

Contingent Liabilities

Details of contingent liabilities are set out in note 12 to the condensed consolidated financial statements.

PRACTICE NOTE 19 TO THE LISTING RULES (“PN19”)

Advances to entities (paragraph 3.2.1 of PN19)

As at 31st January, 2003, the Group had advanced to and given guarantees for facilities granted to certain affiliated companies that, individually, exceed 25% of the Group’s net asset value. In compliance with PN19, details of the advances to and guarantees given for facilities granted to Bayshore Development Group Limited (“Bayshore”), an associate owned as to 30% by the Group, Hillfield Trading Limited (“Hillfield Trading”), Bushell Limited and Sky Connection Limited (“Sky Connection”), associates each owned as to 50% by the Group, as at 31st January, 2003 are set out below:

	Name of affiliated companies				Total HK\$'000
	Bayshore HK\$'000	Hillfield Trading HK\$'000	Bushell Limited HK\$'000	Sky Connection HK\$'000	
	(a)	(b)	(b)	(c)	
Principal amount of advances	900,000	414,172	—	247,048	1,561,220
Interest receivable	137,942	—	—	37,481	175,423
Guarantees given in favor of banks for banking facilities granted	—	—	215,000	109,627	324,627
	1,037,942	414,172	215,000	394,156	2,061,270

- (a) The advance was provided to Bayshore to finance the development of AIG Tower project at 1 Connaught Road Central, Hong Kong. The balance was unsecured, interest-bearing at prevailing market rate up to 31st December, 2002 and had no fixed terms of repayment.
- (b) The advance was provided to Hillfield Trading for its on-lending to Bushell Limited, its wholly-owned subsidiary, to finance the property development of Furama Court project at Tsim Sha Tsui, Hong Kong. The balance was unsecured, non interest-bearing and had no fixed terms of repayment. The guarantee was given to a bank, in proportion to the Group’s beneficial shareholding in Bushell Limited, to secure the loan facilities granted to Bushell Limited to finance the development project of the Furama Court.
- (c) The advance was provided to Sky Connection to finance the general working capital requirement of its duty free liquor and tobacco business. The balance was unsecured, interest-bearing at prevailing market rates and repayable on demand. The guarantees were given to banks, in proportion to the Group’s beneficial shareholding in Sky Connection, to secure a performance bond issued by a bank in favor of Hong Kong Airport Authority and other banking facilities granted by such banks to Sky Connection.

Financial assistance provided to and guarantees given for affiliated companies (paragraph 3.3 of PN19)

As at 31st January, 2003, the Group had given financial assistance and guarantees to financial institutions for the benefit of its affiliated companies amounting to, in aggregate, approximately 386% of the Group's net asset value. In compliance with PN19, the proforma combined balance sheet of the affiliated companies as at 31st January, 2003 is disclosed as follows:

	<i>HK\$'000</i>
Fixed assets	738,316
Properties under development	4,303,226
Interests in associates	372,639
Amount due from a related company	1,500,040
Interests in jointly controlled entities	35,032
Net current liabilities	(232,098)
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Total assets less current liabilities	6,717,155
Long term borrowings	(3,469)
Convertible notes	(259,501)
Deferred income	(105,788)
Amounts due to shareholders	(5,946,154)
<hr/>	
	402,243
<hr/>	
Capital and Reserves	
Issued capital	489,385
Share premium account	3,142,400
Contributed surplus	891,289
Fixed assets revaluation reserve	287,237
Exchange fluctuation reserve	41,484
Accumulated losses	(4,399,248)
<hr/>	
	452,547
Minority interests	(50,304)
<hr/>	
	402,243
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DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st January, 2003, the interests of the Directors and chief executive of the Company in the equity or debt securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Code for Securities Transactions by Directors adopted by the Company (the "Code") were as follows:

(1) The Company

	Number of Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	197,859,550	Nil	1,582,869,192 <i>(Note)</i>	Nil	1,780,728,742
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Nil	10,099,585
Lau Shu Yan, Julius	1,200,000	Nil	Nil	Nil	1,200,000
Wu Shiu Kee, Keith	200,000	Nil	Nil	Nil	200,000
U Po Chu	633,400	Nil	Nil	Nil	633,400
Chiu Wai	195,500	Nil	Nil	Nil	195,500

Note: Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 ordinary shares in the Company. Mr. Lim Por Yen was deemed to be interested in such shares in the Company by virtue of his interest (including those of his associates) of approximately 34.01% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held an interest of approximately 42% in aggregate in the issued share capital of LSG.

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(2) Associated Corporation

eSun Holdings Limited ("eSun")

	Number of eSun Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	Nil	Nil	285,512,791 <i>(Note)</i>	Nil	285,512,791
Wu Shiu Kee, Keith	40,000	Nil	Nil	Nil	40,000

Note: The Company and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in eSun. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of the Company. Mr. Lim Por Yen was deemed to be interested in such shares in eSun by virtue of his interest (including those of his associates) of approximately 34.01% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held an interest of approximately 42% in aggregate in the issued share capital of LSG.

Save as disclosed above, as at 31st January, 2003, none of the Directors or chief executive of the Company or their respective associates had any interests in the equity or debt securities of the Company or its associated corporation which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under Section 31 or Part 1 of the Schedule to that Ordinance) or the Code or which were required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

SUBSTANTIAL SHAREHOLDERS

As at 31st January, 2003, the following parties were interested in 10% or more of the total issued ordinary share capital of the Company as recorded in the register required to be kept by the Company under Section 16 (1) of the SDI Ordinance:

	Number of Ordinary Shares Held
Lai Sun Garment (International) Limited (“LSG”)	1,582,869,192
Mr. Lim Por Yen	1,781,362,142 <i>(Note 1)</i>
Nice Cheer Investment Limited (“Nice Cheer”)	781,346,935
Xing Feng Investments Limited (“Xing Feng”)	781,346,935 <i>(Note 2)</i>
Mr. Chen Din Hwa	781,346,935 <i>(Notes 2 & 3)</i>

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Notes:

1. Mr. Lim Por Yen was deemed to be interested in 1,582,869,192 ordinary shares in the Company by virtue of his interest (including those of his associates) of approximately 34.01% in the issued share capital of LSG.
2. Xing Feng was taken to be interested in 781,346,935 ordinary shares in the Company beneficially owned by Nice Cheer due to its corporate interests therein.
3. Mr. Chen Din Hwa was taken to be interested in 781,346,935 ordinary shares in the Company by virtue of his corporate interests in Nice Cheer.

Save for the interests disclosed above, the Directors are not aware of any other person being interested in 10% or more of the issued ordinary share capital of the Company as at 31st January, 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st January, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the Interim Report of the Company for the six months ended 31st January, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company. The Interim Report has been reviewed by the Audit Committee of the Company.

By Order of the Board

Lam Kin Ngok, Peter

Chairman and President

Hong Kong, 17th April, 2003

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