



eSun Holdings Limited

Interim Report 2004

PLACE OF INCORPORATION

Bermuda

BOARD OF DIRECTORS

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Liu Ngai Wing

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Shiu Kai Wah

Chiu Wai

Alfred Donald Yap*

Low Chee Keong*

Lim Por Yen *(retired on 25th May, 2004)*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Yeung Kam Hoi

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Stock code on Hong Kong Stock Exchange: 571

RESULTS

The Directors of eSun Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June, 2004

		Six months ended	
	<i>Notes</i>	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
TURNOVER	3		
Continuing operations		43,104	47,787
Discontinued operations	5	—	1,968
		43,104	49,755
Cost of sales		(43,028)	(58,299)
Gross profit/(loss)		76	(8,544)
Other revenue	4	3,748	1,094
Marketing expenses		(5,307)	(2,980)
Administrative expenses		(37,502)	(41,527)
Other operating gains, net		7,165	12,339
LOSS FROM OPERATING ACTIVITIES	3, 6	(31,820)	(39,618)
Finance costs	7	(6,816)	(1,254)
Amortisation of goodwill on acquisition of an associate		(1,107)	—
Provisions for amounts due from jointly-controlled entities		(326)	(163)
Share of profits and losses of:			
Associates		8,220	(4,713)
Jointly-controlled entities		(1,259)	(965)
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		(33,108)	(48,734)
Discontinued operations	5	—	2,021
		(33,108)	(46,713)
Tax	8	(11)	(8)
LOSS BEFORE MINORITY INTERESTS		(33,119)	(46,721)
Minority interests		—	—
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(33,119)	(46,721)
LOSS PER SHARE — BASIC	9	HK4.93 cents	HK8.12 cents
INTERIM DIVIDEND PER SHARE		—	—

CONDENSED CONSOLIDATED BALANCE SHEET

30th June, 2004

		30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		165,264	144,251
Long term investments		1,885	—
Interests in jointly-controlled entities		1,706	1,463
Interests in associates		120,192	113,053
Due from Furama Hotel Enterprises Limited	11	1,500,040	1,500,040
Film rights		192,142	197,655
		1,981,229	1,956,462
CURRENT ASSETS			
Short term investments		25	83
Self-produced and purchased programmes		3,542	3,594
Debtors and deposits	12	36,995	38,066
Cash and cash equivalents		17,115	22,450
		57,677	64,193
CURRENT LIABILITIES			
Creditors and accruals	13	81,125	70,378
Tax payable		1,222	1,138
Finance lease payables		38	35
Interest-bearing bank and other borrowings		84,200	64,200
Loan from a related company		—	12,712
Loans from directors		6,008	88,108
		172,593	236,571
NET CURRENT LIABILITIES		(114,916)	(172,378)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,866,313	1,784,084
NON-CURRENT LIABILITIES			
Finance lease payables		(22)	(42)
Interest-bearing bank and other borrowings		(3,000)	(5,000)
Loan from a related company		(13,023)	—
Loan from a shareholder		(104,252)	—
		(120,297)	(5,042)
MINORITY INTERESTS		(196)	(196)
		1,745,820	1,778,846
CAPITAL AND RESERVES			
Issued capital	14	335,592	335,592
Reserves		1,410,228	1,443,254
		1,745,820	1,778,846

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st December, 2003 and 1st January, 2004 (Audited)	335,592	2,888,269	891,289	(2,336,304)	1,778,846
Exchange realignment	—	—	—	93	93
Loss for the period	—	—	—	(33,119)	(33,119)
At 30th June, 2004 (Unaudited)	335,592	2,888,269	891,289	(2,369,330)	1,745,820
At 31st December, 2002 and 1st January, 2003 (Audited)	285,592	2,888,633	891,289	(2,243,508)	1,822,006
Shares issued as consideration for the acquisition of additional interest in an associate	50,000	—	—	—	50,000
Share issue expenses	—	(328)	—	—	(328)
Exchange realignment	—	—	—	(138)	(138)
Loss for the period	—	—	—	(46,721)	(46,721)
At 30th June, 2003 (Unaudited)	335,592	2,888,305	891,289	(2,290,367)	1,824,819

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	Six months ended	
	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(18,206)	(17,241)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	7,941	(12,578)
NET CASH INFLOW FROM FINANCING ACTIVITIES	4,930	17,803
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,335)	(12,016)
Cash and cash equivalents at beginning of period	22,450	18,726
CASH AND CASH EQUIVALENTS AT END OF PERIOD	17,115	6,710
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	17,115	5,431
Time deposits	—	1,279
	17,115	6,710

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2004

1. BASIS OF PRESENTATION

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

The unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2004 have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The Group recorded a net loss attributable to shareholders of approximately HK\$33 million for the six months ended 30th June, 2004 (six months ended 30th June, 2003: HK\$47 million). As at 30th June, 2004, the Group had consolidated net current liabilities of approximately HK\$115 million (31st December, 2003: HK\$172 million), consolidated accumulated losses of approximately HK\$2,369 million (31st December, 2003: HK\$2,336 million) and consolidated net assets of approximately HK\$1,746 million (31st December, 2003: HK\$1,779 million).

As at 30th June, 2004, included in the net current liabilities of approximately HK\$115 million were bank loans of HK\$19 million and other loans of approximately HK\$65 million, which are scheduled to mature within the next twelve months from the balance sheet date.

In order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Group has adopted and is in the process of implementing the following measures:

- (a) the Group has obtained written confirmations from a related company and a shareholder that they will not demand for repayment of their respective loan to the Group prior to 31st December, 2005. Accordingly, the loan balances were reclassified from current liabilities as at 31st December, 2003 to non-current liabilities as at 30th June, 2004;
- (b) the Group will continue to seek the creditors' and all the loan providers' ongoing support to the Group;
- (c) the Group has been agreeing the terms of the Settlement Agreement in respect of the indebtedness of approximately HK\$1,500 million due from Furama Hotel Enterprises Limited ("FHEL") together with the related interest income thereon with Lai Sun Development Company Limited ("LSD") and FHEL on 28th June, 2004. The Group has to obtain the approval from its independent shareholders in respect of the terms of the Settlement Agreement in the forthcoming special general meeting to be held on 13th October, 2004 (please refer to note 11 for details); and
- (d) the Group has been taking action to tighten cost controls over various general and administrative expenses and to explore profitable business opportunities.

In the opinion of the Directors, in light of the measures taken to date and the expected outcome of other measures in progress as planned, including the attainment of profitable and positive cash flow operations, the Group will have sufficient working capital and cash resources to meet its financial obligations in full as they fall due in the foreseeable future. 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.

Should the Company and the Group be unable to continue as a going concern, 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. The effects of these potential adjustments have not been reflected in the financial statements.

2. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31st December, 2003.

3. SEGMENT INFORMATION

(a) Business segments:

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

	(Discontinued operations)											
	Hotel management		Media and entertainment		Satellite television		Advertising agency		Corporate and other		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	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	—	1,968	17,892	14,803	899	785	20,569	32,199	3,744	—	43,104	49,755
Other revenue	—	—	1,317	695	850	—	128	309	1,416	18	3,711	1,022
Total	—	1,968	19,209	15,498	1,749	785	20,697	32,508	5,160	18	46,815	50,777
Segment results	—	2,021	(2,460)	5,855	(15,511)	(25,228)	1,179	(395)	(20,807)	(21,954)	(37,599)	(39,701)
Unallocated interest and other gains											37	72
Unrealised holding gain/(loss) on short term investments									(9)	11	(9)	11
Gain on disposal of investment properties									3,866	—	3,866	—
Write-back of impairment of a long term investment			1,885	—							1,885	—
Loss from operating activities											(31,820)	(39,618)
Finance costs											(6,816)	(1,254)
Amortisation of goodwill on acquisition of an associate			(1,107)	—							(1,107)	—
Provisions for amounts due from jointly-controlled entities			(326)	(163)							(326)	(163)
Share of profits and losses of:												
Associates			8,220	(4,713)							8,220	(4,713)
Jointly-controlled entities			(1,259)	(965)							(1,259)	(965)
Loss before tax											(33,108)	(46,713)
Tax											(11)	(8)
Loss before minority interests											(33,119)	(46,721)
Minority interests											—	—
Net loss attributable to shareholders											(33,119)	(46,721)

(b) **Geographical segments:**

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

	Hong Kong		PRC-Mainland (including Macau)		Other areas		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	25,238	19,810	17,866	27,977	—	1,968	43,104	49,755

4. **OTHER REVENUE**

	Six months ended	
	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
Interest income	37	72
Others	3,711	1,022
	3,748	1,094

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5. **DISCONTINUED OPERATIONS**

As detailed in the Annual Report 2003, the Group's business of the provision of management services to hotels (the "hotel management operations") was discontinued during the year ended 31st December, 2003. The turnover, expenses and results of the hotel management operations for the six months ended 30th June, 2003 were as follows:

	Six months ended 30th June, 2003 (Unaudited) HK\$'000
TURNOVER	1,968
Cost of sales	(232)
Gross profit	1,736
Administrative expenses	(36)
Other operating gains, net	321
PROFIT BEFORE TAX	2,021
Tax	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	2,021

6. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Six months ended	
	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
Cost of film rights and license rights	6,016	164
Cost of self-produced and purchased programmes	9,117	15,759
Cost of services provided	25,990	42,376
Cost of inventories sold	1,905	—
Total cost of sales	43,028	58,299
Gain on disposal of investment properties	(3,866)	—
Write-back of impairment of a long term investment	(1,885)	—
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited	(673)	—
Depreciation	2,427	6,606
Amortisation of self-produced and purchased programmes*	—	503
Amortisation of film rights*	5,513	157
Unrealised holding loss/(gain) on short term investments	9	(11)
Foreign exchange losses/(gains), net	161	(18)

* These items are included in the cost of sales.

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7. FINANCE COSTS

	Six months ended	
	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
Interest on bank and other borrowings wholly repayable within five years	4,348	447
Interest on loans from directors, a shareholder and a related company	2,463	801
Interest on finance leases	5	6
Total	6,816	1,254

8. TAX

No provision for Hong Kong profits tax has been provided as there were no assessable profits generated during the period (six months ended 30th June, 2003: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
Provision for tax for the period:		
Hong Kong	—	—
Elsewhere	68	48
	68	48
Share of tax attributable to:		
Associates	(57)	(40)
Jointly-controlled entities	—	—
	(57)	(40)
Total tax charge for the period	11	8

9. LOSS PER SHARE

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The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$33,119,000 (six months ended 30th June, 2003: HK\$46,721,000), and the weighted average of 671,185,000 (six months ended 30th June, 2003: 575,604,817) ordinary shares in issue throughout the period.

Diluted loss per share amounts for the six months ended 30th June, 2004 and 2003 have not been shown as no diluting events existed during these periods.

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the interim financial statements, the Group had the following material transactions with related parties during the period.

	Notes	Six months ended	
		30th June, 2004 (Unaudited) HK\$'000	30th June, 2003 (Unaudited) HK\$'000
Hotel management, royalty and marketing fees received from hotels held by related companies (a)	(i)	—	1,968
Hotel management fees paid to a related company (a)	(ii)	—	232
Distribution and license fee income from an associate	(iii)	200	8,400
Advertising income from related companies (a)	(iv)	305	510
Advertising income from related companies (b)	(iv)	5,956	—
Advertising income from an associate	(v)	182	—
Distribution commissions for film rights licensing paid to an associate	(vi)	928	—
Consultancy fee for concert production/operation paid to a jointly-controlled entity	(vii)	400	400
Building management service fee paid to a related company (a)	(viii)	75	—

- (a) The related companies are subsidiaries of Lai Sun Development Company Limited (“LSD”), which is a substantial shareholder holding a 42.54% equity interest in the Company as at 30th June, 2004.
- (b) The related companies are subsidiaries of Lai Fung Holdings Limited (“LFH”). Mr. Lam Kin Ming, Mr. Lam Kin Ngok, Peter, Mr. Lee Po On, Madam U Po Chu, Mr. Chiu Wai and Mr. Shiu Kai Wah are directors of the Company and LFH.

Notes:

- (i) The hotel management, royalty and marketing fees were charged to the hotels at certain percentages ranging from 3% to 5% on the gross revenue or operating profits of the hotels.
- (ii) The hotel management fees paid were charged at 1.8% on the gross revenue of the hotels.
- (iii) The distribution and license fee income is charged to an associate based on contract terms.
- (iv) The advertising income is charged to the related companies with reference to the market rates.
- (v) The advertising income is charged to an associate with reference to the market rates.
- (vi) The distribution commissions are charged at 5% or 15% on the gross revenue from film rights licensing.
- (vii) The consultancy fee for concert production/operation paid to a jointly-controlled entity is based on contract terms.
- (viii) The building management service fee for investment properties is charged at a monthly fee of HK\$15,000 with reference to the market rates.

11. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED (“FHEL”)

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

The consideration of HK\$1,900,000,000 for the purchase of the retail and hotel portion of the Furama Hotel was fully paid by GPEL to FHEL in 1999. According to the Development Agreement, the prepaid consideration bore interest at the higher of 8% or LIBOR plus 2% per annum for an amount of HK\$964,923,000, and at the three-month deposit rate offered by the Group’s principal banks plus 1% per annum for the remaining HK\$935,077,000. The interest income received and receivable from the prepaid consideration during the year ended 31st December, 2000 was HK\$69,787,000.

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the “Reorganisation Agreement”). Pursuant to the Reorganisation Agreement, the Development Agreement was cancelled on 29th June, 2000 upon approval by the shareholders of the Company and LSD. Accordingly, the prepaid consideration of HK\$1,900,000,000 became immediately due from FHEL.

In connection with the Reorganisation Agreement, the Company transferred certain hotel and ancillary assets, through the disposal of certain subsidiaries, associates and a long term investment, with an aggregate value of HK\$685,410,000 to LSD. At the same time, LSD transferred certain technology-oriented assets with an aggregate value of HK\$1,085,370,000 to the Company. The excess consideration of HK\$399,960,000 payable by the Company to LSD in respect of such assets transfer was deducted from the outstanding principal amount of indebtedness of HK\$1,900,000,000, which FHEL owed to GPEL, as a result of the cancellation of the Development Agreement as mentioned above. The amount due from FHEL was therefore reduced to HK\$1,500,040,000 (the “Debt”).

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An intercompany debt deed was entered into by the Company, LSD, FHEL and GPEL on 30th June, 2000 (the “Debt Deed”). Pursuant to the Debt Deed, the Company agreed to defer the settlement of the Debt to the earlier of 31st December, 2002 or the day on which the Exchangeable Bonds and Convertible Bonds of the LSD group were repaid in full and the Debt bore interest at 5% per annum. LSD guaranteed the repayment of the outstanding principal and accrued interest payable to GPEL. The Company was also entitled to share, on a pari passu and pro rata basis with the Bondholders of the LSD group (the “Parties”), the following security and pledge:

- (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 100% of the equity interest of the Ritz-Carlton Hong Kong Hotel) beneficially owned by LSD; and
- (b) a negative pledge (the “Negative Pledge”) granted by LSD, pursuant to which LSD agreed not to create additional security over certain major properties of the LSD group without the prior consent of the Parties. The Negative Pledge lapsed in early 2003 according to the terms of the covenants and undertakings given by LSD.

In the Report of the Auditors of the Annual Report 2003, it was stated that the auditors had been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy themselves as to the recoverability of the Debt as included in the consolidated balance sheet of the Group as at 31st December, 2003. Because of the significance of the possible effects of the scope limitation in the evidence available to them as noted above, the auditors were unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements had been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. Accordingly, they had disclaimed their opinion.

The directors had discussed with the management of FHEL and LSD on the repayment of the outstanding balances since early January 2003. As at the date of this Interim Report, the Debt remained outstanding and FHEL did not pay interest on the Debt as from 1st January, 2003. LSD, which defaulted on the Exchangeable Bonds and Convertible Bonds after 31st March, 2003, has entered into a period of informal standstill since 1st April, 2003 with the Bondholders.

On 2nd July, 2004, the Company and LSD jointly announced, among other things, the entering into of the Settlement Agreement and the Whitewash Waiver. LSD and the Company (and their respective wholly-owned subsidiaries, FHEL and GPEL) on 28th June, 2004 entered into the Settlement Agreement concerning the eSun Settlement, that is, the settlement of the indebtedness due from FHEL, and guaranteed by LSD, to GPEL in the principal amount of approximately HK\$1,500 million taking into account an agreed settlement premium of approximately HK\$1,345 million which represents the value in excess of the total settlement payable to GPEL over the book value of the principal amount of approximately HK\$1,500 million, is to be settled on the basis of the following:

- (i) GPEL will receive a cash repayment of HK\$20 million;
- (ii) GPEL will extend the eSun Loan, in the amount of HK\$225 million, to FHEL, which will exist with effect from Completion and be secured on the basis of the Ritz Carlton Security which GPEL will share with the Bondholders on a pari passu basis (Bondholders will entitle to share up to a maximum potential recovery of HK\$120 million). The obligations of FHEL under the eSun Loan will be guaranteed by LSD; and
- (iii) GPEL, or its nominee, will have allotted and issued to it, by LSD, 5,200 million new LSD Shares (being the eSun Settlement Shares) at par value of HK\$0.50 each LSD Share and to be credited as fully paid.

Upon the issue of the eSun Settlement Shares on Completion, the Group will own approximately 40.8% of the enlarged issued share capital of LSD. Accordingly, the Company and parties acting in concert with it would be obliged, on Completion, to make a mandatory general offer under Rule 26.1 of the Takeovers Code in the absence of the Whitewash Waiver. The Company has applied to the SFC for the Whitewash Waiver under Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code.

The acquisition of approximately 40.8% equity interest in LSD and the extension of the eSun Loan as contemplated under the Settlement Agreement constitute a very substantial acquisition and a connected transaction for the Company under the Listing Rules, on the basis that LSD is a substantial shareholder of the Company. Approval by the eSun Independent Shareholders will be sought at the Company's special general meeting to be held on 13th October, 2004, at which LSD, LSG and their respective associates will abstain from voting.

A circular in respect of the terms of the Settlement Agreement has been despatched to the shareholders of the Company on 15th September, 2004.

12. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. An aged analysis of the trade debtors as at 30th June, 2004 is as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Trade debtors:		
Less than 30 days	6,699	8,220
31 — 60 days	2,100	3,548
61 — 90 days	—	126
Over 90 days	3,352	7,648
	12,151	19,542
Other debtors and deposits	24,844	18,524
	36,995	38,066

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

As at 30th June, 2004, included in trade debtors was an amount of HK\$3,042,000 (31st December, 2003: HK\$1,384,000) due from an associate of the Group arising from the ordinary course of business of the Group.

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13. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at 30th June, 2004 is as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Trade creditors:		
Less than 30 days	1,194	5,859
31 — 60 days	1,637	4,481
61 — 90 days	2,091	2,087
Over 90 days	32,818	35,976
	37,740	48,403
Other creditors and accruals	43,385	21,975
	81,125	70,378

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

As at 30th June, 2004, included in trade creditors is an amount of HK\$24,000,000 (31st December, 2003: HK\$24,000,000) due to an associate of the Group arising from the ordinary course of business of the Group.

14. SHARE CAPITAL

	30th June, 2004		31st December, 2003	
	Number of shares (Unaudited) '000	Nominal value (Unaudited) HK\$'000	Number of shares (Audited) '000	Nominal value (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	2,000,000	1,000,000	2,000,000	1,000,000
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	671,185	335,592	671,185	335,592

Movements in the Company's issued ordinary share capital are summarised as follows:

	Number of ordinary shares '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st January, 2003 (Audited)	571,185	285,592	2,888,633	3,174,225
Shares issued as consideration for the acquisition of additional interest in an associate (a)	100,000	50,000	—	50,000
Share issue expenses	—	—	(364)	(364)
At 31st December, 2003 (Audited) and 30th June, 2004 (Unaudited)	671,185	335,592	2,888,269	3,223,861

- (a) On 15th May, 2003, the Group entered into an agreement with Double Classic Limited, Liu Wing Leung, Jerry and Chong Koon Nam, independent third parties (collectively referred to as the "Vendors"), pursuant to which the Company agreed to purchase and the Vendors agreed to sell the entire issued share capital of Splendid Agents Limited ("SAL") for a total consideration of HK\$50,000,001 to be satisfied by the issue and allotment of 100,000,002 shares of the Company at par value of HK\$0.5 each. The principal activity of SAL is investment holding. It holds 14.64% of the issued share capital of Media Asia Holdings Ltd. ("MAH"). Following the acquisition of SAL, the Group's equity interest in MAH has increased from 35.13% to 49.77%.

15. LITIGATION

- (a) In 2002, the Group settled an action commenced by Canadian Pacific Hotels Corporation (the "Purchaser") regarding a disposal of its 50% interest in Delta Hotels Limited. Pursuant to the terms of the settlement, part of purchase price that was held back as security for claims by the Purchaser was released to the Group, leaving approximately C\$1.7 million (equivalent of approximately HK\$9.9 million) in a further escrow account (the "Escrow Money") for one year pending the expiry or resolution of other adverse claims. It was reported in the 2003 annual report of the Company that the Directors consider that the Escrow Money would be received upon the expiry of the said one year period, and no provisions for doubtful debts was required. During the six months ended 30th June, 2004, the Group has received C\$850,000 (equivalent of approximately HK\$4.9 million) of the Escrow Money. The balance would be paid out over the next five-month period, pending any adverse claims that may be raised during the extended period.

- (b) In 2002, a writ of summons was issued in the Court of First Instance by East Asia Entertainment Limited ("EAE"), a wholly-owned subsidiary of the Company, and Active Union Limited ("AUL"), a 70% owned subsidiary of the Company, against Australasian Entertainment Corporation Limited ("AEC"), the minority shareholder of AUL and other related parties claiming, inter alia, loss and damages (amounts to be assessed) suffered in holding an entertainment show known as "Spectaculum". AEC counterclaimed the unsettled expenditure incurred in the show in the sum of HK\$1,486,779. The action has been inactive since 2003. AEC is currently under winding-up by creditors and the Directors will continue to review the situation for any further action. The Directors consider that the outstanding claim should have no material adverse effect on the Group and no provision for the claim is required at this stage.
- (c) In 2002, a writ of summons was issued in the Court of First Instance by Glynhill International Limited ("GIL"), a wholly-owned subsidiary of the Company, against two defendants, Belford Pacific Limited and Tse Wan Chung Philip ("Mr. Tse"), for a sum of US\$156,900 (approximately HK\$1,223,820) plus interest, being a loan (the "Loan") owed by the two defendants and assigned by the original lender of the loan in favour of GIL. Full provision for the Loan was made in the Group's financial statements in the prior year. In 2003, the Group had obtained judgement in default of a defence against Mr. Tse and Mr. Tse agreed to make periodic payments in settlement of the Loan. In 2003, a total of HK\$84,000 was received from Mr. Tse. For the six months ended 30th June, 2004, a total of HK\$84,000 was further received from Mr. Tse.
- (d) On 8th June, 2004, a pre-action demand letter was issued by Mr. Wong Ching Wa Bangi (the "Claimant") against EAE, seeking damages for personal injuries allegedly sustained in an accident on 2nd May, 2002 at the Hong Kong Coliseum. EAE was sued as the organiser of a concert "Sandy In Concert 2002" as well as being the occupier of the Hong Kong Coliseum at the time of the accident. The Claimant has also issued pre-action letters to his direct employer as well as the agent of EAE. As at the date of this Interim Report, the action has not yet been commenced. The Directors consider that the outstanding claim, if held liable in the said proceedings, should have no material adverse effect on the Group and no provision for the claim is required at this stage.

16. COMMITMENTS

- (a) Commitments not provided for in the interim financial statements at the balance sheet date were as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Capital commitments contracted for	34,239	21,979

In addition, the Group has committed to invest in the development of a television city with a programme production centre (the "Project") in Macau, the completion of which is scheduled in 2004 according to the agreement signed with the Macau government. The Group is currently in negotiation with the Macau government in respect of the terms and a delayed schedule of the Project. At 30th June, 2004, the authorised but not contracted for commitment in respect of this project amounted to HK\$213,470,000 (31st December, 2003: HK\$225,891,000).

- (b) The Group leases certain of its office properties and a Macau production centre under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, and the lease term of the Macau production centre is twenty five years.

At 30th June, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Within one year	3,066	2,289
In the second to fifth years, inclusive	4,977	4,213
After five years	14,181	14,592
	22,224	21,094

- (c) The Group has entered into an agreement to lease a satellite channel at an annual licence fee of US\$800,000 for a term of twelve years. At 30th June, 2004, the total future minimum lease payments were as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Within one year	6,234	6,207
In the second to fifth years, inclusive	24,938	24,826
After five years	21,573	24,580
	52,745	55,613

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17. CONTINGENT LIABILITIES

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

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD	25,000	25,000

18. POST BALANCE SHEET EVENT

On 2nd July, 2004, the Company and LSD jointly announced, among other things, the entering into of the Settlement Agreement and the Whitewash Waiver. LSD and the Company (and their respective wholly-owned subsidiaries, FHEL and GPEL) on 28th June, 2004 entered into the Settlement Agreement concerning the eSun Settlement, that is, the settlement of the indebtedness due from FHEL, and guaranteed by LSD, to GPEL in the principal amount of approximately HK\$1,500 million taking into account an agreed settlement premium of approximately HK\$1,345 million which represents the value in excess of the total settlement payable to GPEL over the book value of the principal amount of approximately HK\$1,500 million, is to be settled on the basis of the following:

- (i) GPEL will receive a cash repayment of HK\$20 million;
- (ii) GPEL will extend the eSun Loan, in the amount of HK\$225 million, to FHEL, which will exist with effect from Completion and be secured on the basis of the Ritz Carlton Security which GPEL will share with the Bondholders on a pari passu basis (Bondholders will entitle to share up to a maximum potential recovery of HK\$120 million). The obligations of FHEL under the eSun Loan will be guaranteed by LSD; and
- (iii) GPEL, or its nominee, will have allotted and issued to it, by LSD, 5,200 million new LSD Shares (being the eSun Settlement Shares) at par value of HK\$0.50 each LSD Share and to be credited as fully paid.

Upon the issue of the eSun Settlement Shares on Completion, the Group will own approximately 40.8% of the enlarged issued share capital of LSD. Accordingly, the Company and parties acting in concert with it would be obliged, on Completion, to make a mandatory general offer under Rule 26.1 of the Takeovers Code in the absence of the Whitewash Waiver. The Company has applied to the SFC for the Whitewash Waiver under Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code.

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The acquisition of approximately 40.8% equity interest in LSD and the extension of the eSun Loan as contemplated under the Settlement Agreement constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules, on the basis that LSD is a substantial shareholder of the Company. Approval by the eSun Independent Shareholders will be sought at the Company's special general meeting to be held on 13th October, 2004, in which regard LSD, LSG and their respective associates will abstain from voting.

A circular in respect of the terms of the Settlement Agreement has been despatched to the shareholders of the Company on 15th September, 2004.

19. COMPARATIVE AMOUNTS

As explained in note 5 to the interim financial statements, the Group's hotel management operations were discontinued during the year ended 31st December, 2003. Consequently, turnover and profit before tax in respect of the discontinued operations, which had previously been classified under continuing operations, have been reclassified as "discontinued operations" for the six months ended 30th June, 2003.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period under review (six months ended 30th June, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The Group recorded an unaudited consolidated net loss attributable to shareholders of HK\$33,119,000 for the half-year ended 30th June, 2004, which represented an improvement of approximately 29% over the net loss of HK\$46,721,000 reported for the corresponding period in the previous year. The loss from operating activities had been reduced to HK\$31,820,000 from HK\$39,618,000 in the previous corresponding period, due in part to the gain on disposal of investment properties, a decrease in depreciation on television equipment and leasehold improvements, and a write-back of impairment of a long-term investment. The share of profits from associates represented another positive contribution to the consolidated results.

Turnover for the half-year, at HK\$43,104,000, showed a decrease of approximately 9.8% compared with the previous year. Income derived from the advertising agency business recorded a drop of approximately 36% for the period, and the loss of hotel management fee income, which accounted for approximately 4% of the turnover in the previous year but had been discontinued during the year ended 31st December, 2003, also affected total income. The shortfall had been compensated for mainly by increases in income from entertainment event and sale of cosmetic products.

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On the performance of the different business segments of the Group, media and entertainment reported a loss of HK\$2,460,000 on total revenue of HK\$19,209,000, compared with the profit of HK\$5,855,000 recorded for the previous year. The loss arising from satellite television operation had been further reduced to HK\$15,511,000 for the half-year, down from a loss of HK\$25,228,000 reported for the previous corresponding period. For the advertising agency business, a profit of HK\$1,179,000 had been achieved despite a noticeable fall in revenue. As the default in payment of interest by Furama Hotel Enterprises Limited ("FHEL") on the approximately HK\$1,500 million debt due from FHEL remained in effect, the corporate division recorded a loss of HK\$20,807,000 for the period, compared with the loss of HK\$21,954,000 reported for the previous corresponding period.

On 28th June, 2004, the Company entered into the Settlement Agreement with Lai Sun Development Company Limited ("LSD"), FHEL, and Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of the Company, relating to the proposed settlement of the indebtedness due from FHEL to GPEL. Completion of the Settlement Agreement is conditional on the fulfilment of a number of conditions but should this materialise, the Company would own approximately 40.8% of the enlarged issued share capital of LSD. Details of the Settlement Agreement are contained in the eSun Circular dated 15th September, 2004 despatched to shareholders of the Company.

Satellite Television Operation

Stringent cost control continued to be rigorously enforced by East Asia Satellite Television Limited ("EAST") and this had resulted in further improvements to its operating performance during the half-year under review. The loss for the period had been reduced to HK\$15,511,000 from HK\$25,228,000 recorded in the previous year, a 39% improvement.

Programmes produced by EAST continued to be offered to subscribers of NOW Broadband TV of PCCW Limited in Hong Kong for a monthly fee. However, EAST's business development plans have been hampered to a certain extent as it awaits approval for a satellite television downlink licence from the relevant Mainland authorities.

Construction work at the EAST Television City in Macau Special Administrative Region ("Macau") had been progressing as planned and reclamation work at the site is scheduled for completion in September 2004. A number of development plans have been evaluated by the Group with a view to capitalizing on recent changes in market trends in Macau. The pace of construction work will also be increased to make up for the previous delay.

Film Production

Media Asia Holdings Ltd. ("MAH") reported positive contribution to the results of the Group for the period under review. It released two of its productions in the first-half of 2004, being Magic Kitchen and Elixir of Love, featuring a number of popular Hong Kong artistes. Three other films will be released by MAH in the second-half of 2004.

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MAH announced in June 2004 that it had obtained the approval to list on the Main Board of the Singapore Stock Exchange from the Singapore Exchange Securities Trading Limited. It had lodged its preliminary prospectus with the Monetary Authority of Singapore for approval and the listing application process is still in progress as of today.

Entertainment

Consumer sentiment recovered quickly in the second half of 2003 following the subsidence of SARS. Improvement in the overall local economy had a spill-over effect on leisure activities and this had benefited East Asia Entertainment Limited ("EAE"). During the period under review, EAE produced three shows and participated in four other shows in joint-ventures with other parties.

Total revenue for the Group's media and entertainment segment for the first-half of 2004 increased by 24% over the previous year. This increase arose mainly from entertainment events, as distribution income on pop concerts DVD/VCD products and licence fee income from films in the library of the Group had recorded, in aggregate, a decrease of approximately 12% compared with the previous year. Overall, a loss of HK\$2,460,000 had been reported for this segment for the half-year under review.

Prospects

Whilst EAST will continue to implement its business development plans with suitable adaptations to meet market demand, its customer base and capacity in revenue generation will be linked to a certain extent to the availability of a satellite television downlink licence in the Mainland.

EAST is evaluating a number of development plans for the EAST Television City in Macau, with the aim of adapting the selected plans to capitalize on projected changes in trends in the economy of Macau. If EAST can succeed in bringing these plans to fruition, this should benefit its operations in Macau and shareholders of the Company as a whole in the medium-term.

MAH is focusing on meeting its production schedule for 2004 whilst it awaits the outcome of its application for listing on the Singapore Stock Exchange. In addition to the films scheduled for release during 2004, two other productions under filming are targeted for release in 2005.

EAE will be producing two pop concerts in the second-half of 2004 and will also participate in six other concerts, including a number of pop concerts performed by top-tier local artistes such as Andy Lau, Sammi Cheng and Sam Hui.

Settlement of the debt of approximately HK\$1,500 million due from FHEL, if it materialises, will result in the Group receiving HK\$20 million in cash and a 40.8% shareholding interest in LSD. Furthermore, the Group will also have extended a loan of HK\$225 million to FHEL, which loan will be interest bearing at 4.5% per annum, equivalent to an annual interest income of HK\$10,125,000. Upon Completion, an estimated loss from the Settlement of approximately HK\$327.6 million will be recognised by the Group.

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Liquidity, Financial Resources, Charge on Assets, Gearing and Capital Commitments

As at 30th June, 2004, the Group had cash and cash equivalents of HK\$17,115,000, of which over 80% were denominated in Hong Kong dollar currency.

As at 30th June, 2004, the bank borrowings of HK\$19,000,000 and HK\$3,000,000 which fall due within one year and the second year, respectively, are secured by the Group's land and buildings with an aggregate net book value of HK\$69,194,000 and are interest-bearing at 2.25% above HIBOR per annum. The Group has secured other borrowings of HK\$21,000,000 which fall due within one year and are secured by the Group's investment properties with an aggregate net book value of HK\$21,000,000 and are interest-bearing at 1% per month. The Group also has other borrowings of HK\$44,200,000 which are unsecured, fall due within one year and bear interest at 1% per month. The loan from a related company of HK\$13,023,000 is unsecured, bears interest at HSBC prime rate per annum and is not repayable prior to 31st December, 2005 except for an amount of HK\$523,000 which is interest-free. The loan from a shareholder of HK\$104,252,000 is unsecured, bears interest at HSBC prime rate per annum and is not repayable prior to 31st December, 2005 except for an amount of HK\$3,502,000 which is interest-free. The loan from a director of HK\$6,008,000 is unsecured, interest-free and has no fixed terms of repayment. In addition, the Group has finance lease payables of HK\$38,000 and HK\$22,000 which fall due within one year and over one year to five years, respectively, as at 30th June, 2004.

The Group's gearing is considered low, as the debt to equity ratio was only 10%, expressed as a percentage of total borrowings to total net assets. As at 30th June, 2004, the Group did not have any financial instruments for hedging purpose, or foreign currency net investment hedged by currency borrowings or other hedging instruments.

Future capital expenditures will mainly consist of the land and construction cost for the EAST Television City in COTAI City in Macau. As at 30th June, 2004, the capital commitments contracted for in respect of this project amounted to HK\$34,239,000.

The Group believes that its cash holding, liquid asset value, future revenue and available banking facilities and other borrowings will be sufficient to fund its capital expenditure and working capital requirements.

Contingent Liabilities

Details of contingent liabilities of the Group at the balance sheet date are set out in note 17 to the unaudited condensed consolidated interim financial statements.

Employees and Remuneration Policies

The Group employed a total of approximately 150 employees as at 30th June, 2004. The total staff costs including net pension contributions for the six months ended 30th June, 2004 were approximately HK\$21,259,000 (excluding directors' remuneration). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 25th November, 1996.

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DISCLOSURES UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

(A) Advance to an Entity

Advance to FHEL, an indirect wholly-owned subsidiary of LSD

In compliance with the requirements of Rule 13.20 of the Listing Rules, details of relevant advance made by the Group to an entity as at 30th June, 2004 are as follows:

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the "Reorganisation Agreement") which contemplated the cancellation of the Development Agreement entered into in February 1999 and the reduction of the outstanding indebtedness owed by FHEL, to Golden Pool Enterprise Limited ("GPEL"), a subsidiary of the Company.

In connection with the Reorganisation Agreement, LSD agreed to dispose of certain technology-oriented assets to the Group and the Group agreed to transfer certain hotel and ancillary assets to LSD. The net consideration of HK\$399,960,000 on the disposal of assets made by both parties would be deducted from the outstanding principal amount of the indebtedness due from FHEL.

As of 30th June 2004, the indebtedness due from FHEL was approximately HK\$1,500,040,000. GPEL is entitled to share the securities in item (b) below with LSD's Bondholders in respect of the indebtedness due from FHEL on a pro rata basis:

- (a) LSD has guaranteed the repayment of the outstanding principal and accrued interest payable to GPEL.
- (b) The indebtedness is secured by a limited recourse second charge created over the 6,500 shares in Diamond String Limited, beneficially owned by LSD through Surearn Profits Limited, for the repayment of the outstanding principal amount plus accrued interest.

In respect of a negative pledge granted by LSD to the Bondholders and the Company on the properties: Causeway Bay Plaza 1, Causeway Bay Plaza 2 and Cheung Sha Wan Plaza (the "three LSD properties") in August 2000, the negative pledge lapsed in early 2003 according to the terms of the covenants and undertakings given by LSD.

In accordance with the Supplemental Trust Deed entered into between the Bondholders and LSD on 19th January, 2001, LSD has undertaken that, upon the disposal of the three LSD properties prior to 31st December, 2002, 70% of the surplus (net consideration in excess of amounts secured by any first or prior charge of right over the three LSD properties sold and costs and expenses related to such disposal) would be paid on a pro rata basis to the Bondholders and the Company. Such undertakings provided by LSD expired subsequent to 31st December, 2002.

The Directors had discussed with the management of FHEL and LSD on the repayment of the outstanding balances since early January 2003. As at the date of this Interim Report, the balance of HK\$1,500,040,000 due from FHEL remained outstanding and FHEL did not pay interest on the debt due from FHEL as from 1st January, 2003. LSD, which defaulted on the Exchangeable Bonds and Convertible Bonds after 31st March, 2003, has entered into a period of informal standstill since 1st April, 2003 with the Bondholders.

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On 2nd July, 2004, the Company and LSD jointly announced, among other things, the entering into of the Settlement Agreement on 28th June, 2004 and the Whitewash Waiver, details of the terms of the Settlement are summarised in the above note 11 to the unaudited condensed consolidated interim financial statements under the heading of "Due from Furama Hotel Enterprises Limited".

The Settlement Agreement constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules, on the basis that LSD is a substantial shareholder of the Company. Approval by the Company's Independent Shareholders will be sought at the Company's special general meeting to be held on 13th October, 2004, in which regard LSD, LSG and their respective associates will abstain from voting.

A circular in respect of the terms of the Settlement Agreement has been despatched to the shareholders of the Company on 15th September, 2004.

(B) Financial Assistance and Guarantees to Affiliated Companies

In compliance with the requirements of Rule 13.16 of the Listing Rules, details of loans advanced to (before provisions of impairment losses) and committed financial assistance provided by the Group for the benefit of the Group's affiliated companies as at 30th June, 2004 are as follows:

Name of affiliated company	Attributable interest held by the Group	Amount of advance as at 30th June, 2004 HK\$'000	Notes
The Artiste Campus International Limited	50%	14,479	(1), (3)
Much Entertainment Limited	50%	960	(2), (3)
East Asia Record Production Company Limited	50%	1,500	(2), (3)
		<hr/>	
		16,939	
		<hr/>	

Notes:

- (1) The loan is unsecured, interest-bearing at 1% above the HSBC prime rate per annum and has no fixed terms of repayment.
- (2) The loans are unsecured, interest-free and have no fixed terms of repayment.
- (3) There were no banking facilities granted/utilised by affiliated companies which are guaranteed by the Company.

Pro Forma Combined Balance Sheet of Affiliated Companies

In accordance with Rule 13.22 of the Listing Rules, a pro forma combined balance sheet of the Group's affiliated companies as at 30th June, 2004 and the Group's attributable interest thereon are set out below:

	Pro forma combined balance sheet (Unaudited) HK\$'000	Group's attributable interest (Unaudited) HK\$'000
Fixed assets	144	72
Current assets	648	324
Current liabilities	(15,980)	(7,990)
	<hr/> <hr/> (15,188)	<hr/> <hr/> (7,594)
Capital and reserves	<hr/> <hr/> (15,188)	<hr/> <hr/> (7,594)

SHARE OPTION SCHEME

The Company operates an employee share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible employees who contribute to the success of the Group's operations. Eligible employees of the Share Option Scheme include executive directors and other employees of the Company or any subsidiary. The Share Option Scheme was adopted by the Company on 25th November, 1996 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years.

No share options were outstanding as at 1st January, 2004 and 30th June, 2004. No share options were granted, exercised or cancelled or lapsed during the period. Consequent upon the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no further options may be granted under the Share Option Scheme unless such grant is made in compliance with the amended rules. As at the date of this Interim Report, no amended share option scheme has been adopted. The principal terms of the existing Share Option Scheme before amendment are:

- (a) The maximum number of shares of the Company (the "Shares") in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme will not, when aggregated with any Shares subject to any other schemes, exceed such number of Shares as shall represent 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the Share Option Scheme.
- (b) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

- (c) An offer of the grant of an option shall remain open for acceptance by the employee concerned for a period of 28 days from the date upon which it is made. An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising the acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$10 by way of consideration for the grant thereof, is received by the Company. An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme and the conditions of the grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.
- (d) The subscription price shall be a price notified by the board of the Company to an employee being (i) not less than 80% of the average of the closing prices of the Shares on the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the offer date; or (ii) the nominal value of the Shares, whichever is the higher.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

In compliance with the provisions of Chapter 17 of the Listing Rules, appropriate amendments will be made to the terms and conditions of the share option scheme should the Company continue to grant options under the existing scheme.

DIRECTORS' INTERESTS

As at 30th June, 2004, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

The Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares		Total	Percentage
			Corporate Interests	Capacity		
Lien Jown Jing, Vincent	931,800	Nil	Nil	Beneficial owner	931,800	0.14%
Lee Po On	5,195,934	Nil	Nil	Beneficial owner	5,195,934	0.77%
Liu Ngai Wing	3,321,215	Nil	Nil	Beneficial owner	3,321,215	0.49%
U Po Chu	Nil	285,512,791	Nil	Beneficial owner	285,512,791	42.54%

(Note)

Note: Madam U Po Chu was deemed to be interested in 285,512,791 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 285,512,791 shares in the Company. Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary held an interest of approximately 42.25% in the issued ordinary share capital of LSD. Mr. Lim Por Yen was deemed to be interested in such shares in the Company by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of LSG.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of LSG and held in aggregate an interest of approximately 42% in the issued share capital of LSG.

Save as disclosed above, as at 30th June, 2004, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30th June, 2004, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate	285,512,791 (Note 2)	42.54%
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	285,512,791 (Note 3)	42.54%
Lim Por Yen	Beneficial owner	Corporate	285,512,791 (Note 4)	42.54%
U Po Chu	Beneficial owner	Family	285,512,791 (Note 5)	42.54%
Lai Yuen Fong	Beneficial owner	Family	285,512,791 (Note 6)	42.54%
Silver Ace Limited	Beneficial owner	Corporate	50,439,600 (Note 7)	7.52%
Lagonda Resources Limited	Beneficial owner	Corporate	50,439,600 (Notes 7 and 8)	7.52%
Li Chi Keung	Beneficial owner	Corporate & Family	50,439,600 (Notes 7 and 9)	7.52%
Wong Hoi Ping	Beneficial owner	Corporate & Family	50,439,600 (Notes 7 and 10)	7.52%
Lovendale International Inc.	Person having a security Interest in shares	Corporate	285,512,791 (Note 7)	42.54%
Onshine Finance Limited	Person having a security Interest in shares	Corporate	100,000,002 (Note 7)	14.90%

Notes:

1. Family and corporate denote family interest and corporate interest respectively.
2. This interest has been pledged to a non-qualified lender by way of security.
3. These interests in the Company were held by LSD and its subsidiaries. LSG was deemed to be interested in the 285,512,791 shares in the Company held by LSD and its subsidiaries by virtue of LSG and its wholly-owned subsidiary holding collectively an interest of approximately 42.25% in the issued ordinary share capital of LSD.
4. Mr. Lim Por Yen was deemed to be interested in such shares in the Company by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of LSG.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of LSG and held in aggregate an interest of approximately 42% in the issued share capital of LSG.

5. Madam U Po Chu was deemed to be interested in 285,512,791 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
6. Madam Lai Yuen Fong was deemed to be interested in 285,512,791 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
7. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.
8. Lagonda Resources Limited was taken to be interested in 50,439,600 shares in the Company beneficially owned by Silver Ace Limited due to its corporate interests therein.
9. Mr. Li Chi Keung was taken to be interested in 50,439,600 shares in the Company by virtue of his corporate and family interests in Silver Ace Limited.
10. Ms. Wong Hoi Ping was taken to be interested in 50,439,600 shares in the Company by virtue of her corporate and family interests in Silver Ace Limited.

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of equity derivatives and debentures of the Company as at 30th June, 2004.

DEFINITIONS

In this Interim Report, the following expressions shall have the following meanings unless the context requires otherwise:

“Bondholders”	the Exchangeable Bondholders and the Convertible Bondholders
“Bonds Settlement”	settlement of the outstanding indebtedness owing by LSD to the Bondholders on the principal terms as set in the LSD Circular dated 15th September, 2004 which has been despatched to the Company’s shareholders
“Chen Family”	(i) Nice Cheer Investment Limited, a company indirectly controlled by Mr. Chen Din Hwa as to a 100% of its share capital, and a substantial shareholder of LSD as to 20.86% of the total issued share capital of LSD as at the Latest Practicable Date; (ii) Mr. Chen Din Hwa; and (iii) any of the respective associates of Nice Cheer Investment Limited and Mr. Chen Din Hwa
“Completion”	completion of the Settlement Agreement and completion of the Bonds Settlement, which are expected to occur simultaneously and no later than 1st November, 2004 or such other date as the parties shall agree in writing from time to time
“Convertible Bondholders”	holders of Convertible Bonds
“Convertible Bonds”	the US\$150 million 4% convertible guaranteed bonds originally due 2002 issued by Lai Sun International Finance (1997) Limited (a wholly-owned subsidiary of LSD) and guaranteed by LSD, as constituted by the trust deed dated 4th August, 1997 as amended from time to time
“eSun Circular”	the circular dated 15th September, 2004 in respect of the eSun Settlement issued by the Company to its shareholders
“eSun Independent Shareholders”	the shareholders of the Company other than LSD, LSG, members of the Lim Family, the Directors who hold LSD Shares and any other Shareholder who is interested or involved in the eSun Settlement (other than being merely a Shareholder) and any of their respective associates
“eSun Loan”	the proposed 5 year interest-bearing term loan, at a rate of 4.5% per annum, in the principal amount of HK\$225 million owed by FHEL to GPEL
“eSun Settlement”	settlement of the indebtedness due from FHEL, and guaranteed by LSD, to GPEL in the principal amount of approximately HK\$1,500 million pursuant to the Settlement Agreement

“eSun Settlement Shares”	the 5,200 million new LSD Shares to be allotted and issued by LSD to GPEL, or its nominee pursuant to the terms of the Settlement Agreement
“Exchangeable Bondholders”	holders of Exchangeable Bonds
“Exchangeable Bonds”	the US\$115 million 5% exchangeable guaranteed bonds originally due 2004 issued by Lai Sun International Finance (Cayman Islands) Limited (a wholly-owned subsidiary of LSD) and guaranteed by LSD, as constituted by the trust deed dated 28th February, 1997 as amended and supplemented from time to time
“Latest Practicable Date”	10th September, 2004, being the latest practicable date prior to the printing of the eSun Circular for the purpose of ascertaining certain information in the eSun Circular
“Lim Family”	Mr. Lim Por Yen, Madam U Po Chu (being the spouse of Mr. Lim Por Yen), Mr. Peter Lam and Mr. Lam Kin Ming (being the sons of Mr. Lim Por Yen) together with their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LSD Circular”	the circular dated 15th September, 2004 in respect of the Settlement issued by LSD to its shareholders
30 “LSD EGM”	the extraordinary general meeting of LSD to be convened for the purposes of considering resolution(s) relating to the Settlement
“LSD Independent Shareholders”	the shareholders of LSD other than LSG, members of the Lim Family, members of the Chen Family, the directors of LSD and the Company who hold LSD Shares, any other shareholder of LSD who is interested or involved in the Settlement (otherwise than being merely a shareholder of LSD) and their respective associates
“LSD Shares”	ordinary shares of HK\$0.50 each in the capital of LSD
“LSG”	Lai Sun Garment (International) Limited, a company incorporated in Hong Kong the shares of which are listed on the Stock Exchange

“Ritz-Carlton Security”	<p>the package of security to be afforded to GPEL, and shared in part with the Bondholders comprises the followings:</p> <ul style="list-style-type: none"> (i) a first charge over LSD’s indirect 100% shareholding interest in Surearn Profits Limited which owns 65% of Diamond String Limited; (ii) a second charge over LSD’s 65% indirect shareholding interest in Diamond String Limited which owns 100% of The Ritz Carlton, Hong Kong; <p>GPEL and the Bondholders will share the above securities on a pari passu basis (but in the case of the Bondholders, up to a maximum potential recovery of HK\$120 million).</p>
“Settlement”	the Bonds Settlement and the completion of the Settlement Agreement
“Settlement Agreement”	the agreement dated 28th June, 2004 between LSD, the Company, FHEL and GPEL relating to the settlement of the outstanding principal indebtedness of approximately HK\$1,500 million owed by FHEL, and guaranteed by LSD, to GPEL (as amended and supplemented by a supplemental agreement dated 31st August, 2004 which provides that the latest date for fulfilment of all the conditions may be such other date as the parties may agree in writing)
“SFC”	The Securities and Futures Commission of Hong Kong
“Shareholder(s)”	the holder(s) of shares of HK\$0.50 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code of Takeovers and Mergers
“Whitewash Waiver”	the waiver by the executive director of the Corporate Finance Division of the SFC of the obligations of the Company to make a mandatory offer to acquire the entire issued share capital of LSD not otherwise owned by the Company and parties acting in concert with it upon Completion pursuant to the provisions of Rule 26 of the Takeovers Code, such waiver to be unconditional or subject to such conditions as are customary or which are reasonably acceptable to the Company including the approval of the LSD Independent Shareholders pursuant to a vote conducted by way of poll having been obtained at the LSD EGM and in full compliance with the provisions of the Takeovers Code

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June, 2004, 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 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 this Interim Report of the Company for the six months ended 30th June, 2004, 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 are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the bye-laws of the Company.

The Company has established an audit committee in accordance with the requirements of the Code of Best Practice. The audit committee comprises two independent non-executive Directors, Mr. Alfred Donald Yap and Mr. Low Chee Keong, during the period covered by the Interim Report. The Interim Report has been reviewed by the audit committee.

By Order of the Board
Lien Jown Jing, Vincent
Chairman