# Notes to Financial Statements

31st July, 2004

## 1. CORPORATE INFORMATION

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

- property investment
- property development for sale
- investment in and the operation of hotels and restaurants
- investment holding

## 2. BASIS OF PRESENTATION

The Group sustained net loss from ordinary activities attributable to shareholders of HK$39 million (2003: HK$477 million (as restated)). At the balance sheet date, the Group had consolidated net current liabilities of HK$5,664 million (2003: HK$7,654 million) and a consolidated deficiency in assets of HK$116 million (2003: HK$418 million (as restated)). The improvement in the Group's operating results during the year was mainly attributable to the reversal of impairment losses made in prior years against fixed assets, long term unlisted investments and interests in associates, and the write-back of certain profits tax provisions made in prior years. The financial position of the Group improved during the year due to the disposal of certain investment properties and subsidiaries which contributed additional funds to the Group that were partially used for the reduction of its indebtedness.

At the balance sheet date, the Group had outstanding borrowings of approximately HK$5,965 million, comprising (i) secured bank and other borrowings of approximately HK$2,292 million; (ii) an accrued loan repayment premium of approximately HK$32 million under a loan facility; (iii) an outstanding amount of approximately HK$881 million payable under the exchangeable bonds (principal amount of HK$622 million and accrued bond redemption premium of HK$259 million) (the "Exchangeable Bonds"); (iv) an outstanding amount of approximately HK$1,260 million payable under the convertible bonds (principal amount of HK$907 million and accrued bond redemption premium of HK$353 million) (the "Convertible Bonds"); and (v) an amount payable to Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), of approximately HK$1,500 million (the "Debt").



As previously reported in the financial statements of prior years, the Exchangeable Bonds and the Convertible Bonds (collectively defined as the "Bonds") were originally due for repayment on 31st December, 2002. The principal relevant terms of the Bonds are set out in notes 28 and 29 to the financial statements. During formal meetings with holders of the Bonds (collectively the "Bondholders") in December 2002, the Bondholders passed resolutions to defer the repayment date of the Bonds to 31st March, 2003. At 31st March, 2003, the Group was unable to repay the outstanding Bonds and was not able to reach any other settlement agreement or restructuring plan with the Bondholders. Consequently, the Group has been in default on repayment of the Bonds since 31st March, 2003 and remained so as at 31st July, 2004. At 31st July, 2004, the Group was also in default on repayment of the Debt to GPEL, which was originally due for repayment on 31st December, 2002.

## 2. BASIS OF PRESENTATION (continued)

Since 31st March, 2003, the Group had ongoing discussions with all of its financial creditors (including the Bondholders and GPEL) with a view to formulating a consensual debt restructuring proposal and with an objective of refinancing the Group's indebtedness in order to put the Group in a better financial position.

**Bonds Settlement and eSun Settlement Agreement**

During the year, the Company reached an agreement, in principle, with the informal committee of the Bondholders (the "Informal Committee") concerning the proposed settlement of the Bonds owed by the Group to the Bondholders (the "Bonds Settlement").

The Bonds Settlement included the settlement of the outstanding principal amount, accrued outstanding interest, redemption premium of the Bonds that amounted to approximately HK$2,279 million as at 31st July, 2004 and an agreed settlement premium of approximately US$33 million (equivalent to approximately HK$257 million) payable to the Bondholders upon the completion of the Bonds Settlement as determined after arm's length negotiation between the Informal Committee and the Company.

Principal proposed terms of the Bonds Settlement are summarised as follows:

The total amount due to the Bondholders is to be settled by:

(i) cash repayments of approximately US$38 million (equivalent to approximately HK$300 million);

(ii) the residual principal indebtedness in the amount of approximately HK$266 million (the "Residual Indebtedness") and a further principal amount of approximately HK$70 million (the "Contingent Indebtedness") which remain due to the Bondholders, would be settled on or before 31st December, 2005. The Residual Indebtedness and the Contingent Indebtedness are non interest-bearing and are to be secured by a package of securities (the "Bonds Security") as further explained below; and

(iii) the issuance of approximately 3,800 million settlement shares of the Company at a price of HK$0.50 each (the "Bonds Settlement Shares").

It is proposed that Mr. Peter Lam, the Chairman, an executive director and a shareholder of the Company, will grant the Bondholders a non-assignable right to put to him the Bonds Settlement Shares in two tranches:

(i) 1,000,600,000 Bonds Settlement Shares (the "First Tranche Shares") at HK$0.07 per share, exercisable during a period commencing from two months after the completion (the "Completion") of the Bonds Settlement and the eSun Settlement Agreement (as defined below) and ending by end of the third month after the Completion; and

(ii) 2,799,440,000 Bonds Settlement Shares (the "Second Tranche Shares") at HK$0.03 per share, exercisable during a period commencing on 1st November, 2005 and ending on 30th November, 2005.

# Notes to Financial Statements

31st July, 2004

## 2. BASIS OF PRESENTATION (continued)

**Bonds Settlement and eSun Settlement Agreement (continued)**

To secure the Residual Indebtedness and Contingent Indebtedness due to the Bondholders, the Company, subject to obtaining the necessary consents, permits, approvals, authorisations and waivers, will afford to the Bondholders the Bonds Security as follows:

(i) first charges over the Group's 10% equity interest in Avondale Properties Limited (the "Waterfront Security Interest");

(ii) a first charge over the Group's 26.01% equity interest in Chains Caravelle Hotel Joint Venture Co. Ltd. (the "Caravelle Security Interest");

(iii) a first charge over the Group's 62.625% equity interest in Indochina Beach Hotel Joint Venture (the "Danang Security Interest");

(iv) a limited recourse right to share in the Ritz-Carlton Security (as defined and detailed below) on a pari passu basis with GPEL; and

(v) charges over the Company's 42.54% indirect shareholding interest in eSun and its subsidiaries (the "eSun Group").

The Waterfront Security Interest, the Caravelle Security Interest and the Danang Security Interest are collectively known as the Three Planned Sale Interests under the Bonds Settlement, further details of which are included in pages 20 to 21 of the Company's circular dated 15th September, 2004 (the "Circular").



On 28th June, 2004, the Company also entered into a settlement agreement with eSun (the "eSun Settlement Agreement") in connection with the proposed settlement of the Debt. The eSun Settlement Agreement included the settlement of the principal amount of the Debt of approximately HK$1,500 million and an agreed settlement premium of approximately HK$1,345 million payable upon the completion of the eSun Settlement Agreement.

The principal terms of the eSun Settlement Agreement are summarised as follows:

The total amount due to eSun is to be settled by:

(i) cash repayment of HK$20 million;

(ii) a 5-year secured interest-bearing term loan in the principal amount of HK$225 million owed by Furama Hotel Enterprises Limited ("FHEL") to GPEL (the "eSun Loan"). The eSun Loan will bear interest at a rate of 4.5% per annum, payable semi-annually, with the principal amount to be repaid in five years after the completion of the eSun Settlement Agreement, and is secured by the Group's interests in The Ritz-Carlton, Hong Kong (the "Ritz-Carlton Security"); and

(iii) the issuance of 5,200 million settlement shares of the Company at a price of HK$0.50 each (the "eSun Settlement Shares") upon which the eSun Group will hold 40.8% interest in the Company.

## 2. BASIS OF PRESENTATION (continued)

**Bonds Settlement and eSun Settlement Agreement (continued)**

Upon completion of the cash repayments under the Bonds Settlement and the eSun Settlement Agreement, the existing parties to the current second charge over the Ritz-Carlton Security in favour of GPEL and the Bondholders shall amend the existing second charge to adjust their respective security interests existing as at the relevant date thereof to take account of payment made by the Company of HK$20 million to GPEL and of approximately US$38 million to the Bondholders.

In relation to the eSun Settlement Shares, eSun or GPEL has covenanted and undertaken to the Company not to dispose of them until the earlier of the purchase by Mr. Peter Lam of such Second Tranche Shares as are put to him, or 31st January, 2006.

Subject to the Completion taking place, the accrued overdue interest on the Debt owed to GPEL will be waived. As at 31st July 2004, the accrued overdue interest amounted to approximately HK$119 million.

Further details of the principal terms of the Bonds Settlement and the eSun Settlement Agreement are set out in the Circular.

On 6th October, 2004, the Bondholders held a meeting in accordance with the terms of the Bonds and passed the necessary resolutions to duly approve the terms agreed between the Informal Committee and the Company. Pursuant to the resolutions, the conditions precedent must be fulfilled or otherwise waived on or before 31st January, 2005.

Pursuant to a resolution passed at a special general meeting held by eSun on 13th October, 2004, the independent shareholders of eSun approved the eSun Settlement Agreement.

On the same date, pursuant to a resolution passed at the extraordinary general meeting held by the Company, the Bonds Settlement and the eSun Settlement Agreement (collectively, the "Settlements") were duly approved by the independent shareholders of the Company.

On 18th October, 2004, upon fulfillment of certain specified conditions, cash repayments of HK$20 million and US$38 million were made to eSun and the Bondholders, respectively and the amended second charge to adjust the respective security interests in favour of GPEL and the Bondholders as at that date was duly executed as agreed.

The completion of the Settlements is subject to certain other conditions, as detailed in the Circular, being fulfilled, which include, among other things:

(i) the Company obtaining all relevant consents, permits, approvals, authorisations and waivers necessary for the purposes of putting in place the Three Planned Sale Interests;

(ii) the Company and eSun obtaining any or all the consents, permits, approvals, authorisations and waivers necessary or appropriate for the entering into and consummation of the transactions contemplated under the Settlements;

# Notes to Financial Statements

31st July, 2004

## 2. BASIS OF PRESENTATION (continued)

**Bonds Settlement and eSun Settlement Agreement (continued)**

(iii) the Stock Exchange of Hong Kong Limited granting the approval of the listing of, and permission to, deal in the eSun Settlement Shares and the Bonds Settlement Shares; and

(iv) the simultaneous completion of the Bonds Settlement and the eSun Settlement Agreement.

Under the eSun Settlement Agreement, if each of the conditions was not fulfilled or waived by the respective parties, by 1st November, 2004 (the "Longstop Date") or such other date as the parties shall agree from time to time in writing, the Settlements will terminate. On 29th October, 2004, the Longstop Date was agreed to extend to 31st December, 2004.

The Company is currently working closely with its legal advisers to finalise the formal documentations applicable to the Bonds Settlement. In addition, the Company, with the assistance of its legal advisers, continues to work with relevant parties to obtain the necessary consents, permits, approvals, authorisations and waivers with a view to complete the Settlements in the near future.

**Bank and other borrowings**

As a result of the cross-default triggered by the defaults in the repayment of the Bonds and the Debt, the Group was in technical default of bank and other borrowings and accordingly such bank and other borrowings have been classified as current liabilities in the financial statements. These financial creditors have the right to serve notice to the Group to declare the bank and other borrowings to be immediately due and repayable. To date, no such notices have been served. As at 31st July, 2004, all outstanding bank and other borrowings were stated as current liabilities. Further details of repayment terms of these bank and other borrowings were disclosed in note 26 to the financial statements. All principal banks had shown their intention to provide continued financial support to the Group by continuously granting short-term extension to the loan repayment dates as necessary. The Group is having ongoing discussions with these financial creditors with an objective to refinance the Group's bank and other borrowings for a longer term (the "Long-term Financing").

If the Settlements are implemented in accordance with the terms described above, the consolidated profit and loss account of the Group will be affected by, inter alia, the recognition of the settlement premium provision, the consolidated indebtedness of the Group will be significantly reduced and the net asset position of the Group will turn from negative to positive.

The directors of the Company believe that the Group will be successful in fulfilling the outstanding conditions and all necessary procedures required for the Settlements such that the Settlements could be implemented and that the Group will be successful in securing the Long-term Financing. On this basis, the directors of the Company consider that the Group will be able to significantly reduce its liabilities and will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis were 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. The effects of these potential adjustments have not been reflected in the financial statements.

## 3. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (''SSAP'')

The following revised SSAP and Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes — Recovery of revalued non-depreciable assets"

The SSAP and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting the SSAP are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below.

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosure:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 30 to the financial statements and include a reconciliation between the accounting loss and the tax charge/(credit) for the year.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in note 4 and in note 30 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from revalued non-depreciable assets and investment properties be measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Company in respect of its investment properties in the deferred tax calculated under SSAP 12.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and short term investments, as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

**Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.



**Associates**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Certain interest on loans borrowed for investments in associates engaged in property development is capitalised in the Group's share of the net assets of the associates.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of ranging from four to twenty years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions of subsidiaries was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.



The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Negative goodwill (continued)**

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the consolidated reserves. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**Impairment of assets**



An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed assets and depreciation**

No depreciation is provided for hotel and investment properties. Other fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land | Over the unexpired lease terms |
| Buildings | 2.5% – 5.0% |
| Leasehold improvements | 2.5% – 20.0% |
| Furniture, fixtures and equipment | 5.0% – 20.0% |
| Motor vehicles | 10.0% – 25.0% |
| Computers | 10.0% – 25.0% |
| Motor vessels | 25.0% |



Hotel properties are interests in land and buildings and their integral fixed plant which are collectively used in the operation of hotels, and are stated at cost less any impairment losses. It is the Group's policy to maintain the hotel properties in such condition that their residual values are not diminished by the passage of time and, therefore, any element of depreciation is insignificant. Accordingly, the directors consider that it is not necessary for depreciation to be charged in respect of the hotel properties. The related repairs and maintenance are charged to the profit and loss account in the year in which they are incurred. The costs of significant improvements are capitalised.

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**Properties under development**

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

**Completed properties for sale**

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is estimated by the directors based on prevailing market conditions. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by apportionment of the total land and building costs attributable to unsold properties.



**Long term investments**

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

**Short term investments**

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values, as determined by the directors, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

**Inventories**

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost for food, beverages, cutlery, linen and supplies used in hotel and restaurant operations is determined on the first-in, first-out basis. Cost for other inventories is determined on the weighted average basis and comprises materials, direct labour and an appropriate proportion of all production overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

The premium on bonds redemption represents the excess of the redemption price payable by the Group on the maturity of the bonds over the respective principal amounts of the bonds. Provision for premium on bonds redemption is made and charged to the profit and loss account on a systematic basis calculated with reference to the terms of the bond documents. Upon the exchange/conversion of the bonds prior to maturity, the related premium provided is released and accounted for as part of the consideration for the shares into which the bonds are so exchanged/converted.

The provision for premium on loan repayment is made and charged to the profit and loss account in accordance with the terms of the loan agreements.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.



For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised directly in equity in the same or a different period.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.



The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of completed properties developed for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the government of Hong Kong Special Administrative Region or a completion certificate by the relevant government authorities, whichever is later;

(b) from the sale of investment properties, when all the conditions of a sale have been met and the risks and rewards of ownership have been transferred to the buyer;

(c) rental and property management fee income, in the period in which the properties are let out and on the straight-line basis over the lease terms;

(d) from hotel and restaurant operations and other related service income, in the period in which such services are rendered;

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(f) dividend income, when the shareholders' right to receive payment has been established.



**Borrowing costs**

Borrowing costs, which are not directly attributable to the acquisition or construction of qualifying assets, are charged to the profit and loss account in the period in which they are incurred.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

# Notes to Financial Statements

31st July, 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits**

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

*Retirement benefits*

The Group operates funded final salary defined benefit pension schemes (the "Schemes") for those employees who are eligible to participate in the Schemes. The expected costs of providing pensions under the Schemes are charged to the profit and loss account over the periods during which the employees provide the related services to the Group.



An actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of the Group's future defined benefit obligation under the Schemes earned by the employees as at the balance sheet date (the "Scheme Obligation"). The assets contributed by the Group to the Schemes (the "Scheme assets") are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the balance sheet date.

The effect of actuarial gains and losses experienced in the estimation of the Scheme Obligation and the valuation of the Scheme assets is initially recorded in the balance sheet and is subsequently recognised in the profit and loss account only when the net cumulative actuarial gains or losses in the balance sheet exceed 10% of the higher of the Scheme obligation and the fair value of Scheme assets at the beginning of the period. Such "excess" net cumulative actuarial gains or losses are recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the Schemes.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

*Retirement benefits (continued)*

The net of the Scheme Obligation and the fair value of the Scheme assets at the balance sheet date, together with the actuarial gains and losses remaining in the balance sheet at that date, is recognised in the balance sheet within non-current assets or non-current liabilities, as appropriate. If the net amount results in an asset, the amount of the asset is limited to the net total of any net cumulative actuarial losses remaining in the balance sheet, and the present value of any future refunds from the Schemes or reductions in future contributions to the Schemes. Movements in the net asset or liability recognised in the balance sheet during the period, other than those deferred in the balance sheet, are recorded in the profit and loss account for the period.

The amounts of the contributions payable by the Group to the Schemes are determined by the actuary using the projected unit credit actuarial valuation method.

The Schemes operated by Furama Hotel Enterprises Limited and Majestic Hotel Enterprises Limited were terminated on 17th November, 2003 and 1st June, 2004, respectively. The excessive funds were refunded to the Group.

In addition, during the year, the Group also operated a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance and defined contribution retirement schemes (the "Contribution Schemes") for those employees who are eligible to participate in the respective scheme during the year. The assets of the schemes are held separately from those of the Group in the respective independently administered funds. Contributions to the MPF Scheme and the Contribution Schemes are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the respective scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, while under the Contribution Schemes, when an employee leaves the scheme prior to his/her interest in the Group's contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The employees of the Group's subsidiaries which operate in Mainland China and Vietnam are required to participate in a central pension scheme operated by the government of the country in which the subsidiaries operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the respective central pension scheme.

# Notes to Financial Statements

31st July, 2004

## 5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the property development and sale segment engages in property development and the sale of properties;

(b) the property investment segment comprises the leasing of and sale of investment properties;

(c) the hotel and restaurant operations segment engages in the operation of hotels and restaurants; and

(d) the "others" segment comprises the Group's property management services, which provides property management and security services to residential, office, industrial and commercial properties.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.



Intersegment sales and transfers are transacted with reference to the prevailing market prices.

# Notes to Financial Statements

31st July, 2004

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, results and asset, liability and certain expenditure information for the Group's business segments.

*Group*

| | Property development and sales | | Property investment | | Hotel and restaurant operations | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 (Restated) |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | **3,762** | 98,633 | **1,569,506** | 390,232 | **514,834** | 400,554 | **21,411** | 17,171 | **—** | — | **2,109,513** | 906,590 |
| Intersegment sales | **—** | — | **6,464** | 6,062 | **655** | 3,375 | **26,645** | 17,479 | **(33,764)** | (26,916) | **—** | — |
| Other revenue | **—** | 449 | **3,115** | 1,291 | **3,195** | 146 | **3,804** | 6,407 | **—** | — | **10,114** | 8,293 |
| Total | **3,762** | 99,082 | **1,579,085** | 397,585 | **518,684** | 404,075 | **51,860** | 41,057 | **(33,764)** | (26,916) | **2,119,627** | 914,883 |
| Segment results | **(927)** | (11,630) | **93,971** | 301,351 | **217,157** | 52,282 | **13,885** | 28,098 | **—** | — | **324,086** | 370,101 |
| Interest income and unallocated gains | | | | | | | | | | | **9,105** | 59,522 |
| Unallocated expenses | | | | | | | | | | | **(104,942)** | (90,402) |
| Reversal of/(provision for) impairment of long term unlisted investments | | | | | | | | | | | **33,772** | (7,772) |
| Profit from operating activities | | | | | | | | | | | **262,021** | 331,449 |
| Finance costs | | | | | | | | | | | **(351,362)** | (473,255) |
| Share of profits and losses of associates | **17,643** | (19,661) | **—** | — | **—** | — | **—** | — | **—** | — | **17,643** | (19,661) |
| Share of profits and losses of associates — unallocated | | | | | | | | | | | **(11,047)** | 13,916 |
| Amortisation of goodwill on acquisition of an associate | | | | | | | | | | | **—** | (26,545) |
| Reversal of/(provision for) impairment of associates | **23,617** | (32,920) | **—** | — | **—** | — | **—** | — | **—** | — | **23,617** | (32,920) |
| Impairment of associates — unallocated | | | | | | | | | | | **(436)** | (3,884) |
| Loss on disposal of an associate | | | | | | | | | | | **—** | (73,265) |
| Loss on deemed disposal of an associate | | | | | | | | | | | **—** | (103,695) |
| Loss on disposal of partial interest in an associate | **—** | (16,628) | **—** | — | **—** | — | **—** | — | **—** | — | **—** | (16,628) |
| Loss before tax | | | | | | | | | | | **(59,564)** | (404,488) |
| Tax | | | | | | | | | | | **74,505** | (45,466) |
| Profit/(loss) before minority interests | | | | | | | | | | | **14,941** | (449,954) |
| Minority interests | | | | | | | | | | | **(54,254)** | (26,612) |
| Net loss from ordinary activities attributable to shareholders | | | | | | | | | | | **(39,313)** | (476,566) |

# Notes to Financial Statements

31st July, 2004

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

*Group (continued)*

| | Property development and sales | | Property investment | | Hotel and restaurant operations | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 (Restated) |
| Segment assets | **11,145** | 13,584 | **3,172,151** | 4,536,778 | **1,534,643** | 1,909,967 | **56,442** | 46,848 | **—** | — | **4,774,381** | 6,507,177 |
| Interests in associates | **211,788** | 160,320 | **50,624** | — | **97,747** | — | **—** | — | **—** | — | **360,159** | 160,320 |
| Interests in associates — unallocated | | | | | | | | | | | **793,167** | 805,760 |
| Unallocated assets | | | | | | | | | | | **842,383** | 597,995 |
| Total assets | | | | | | | | | | | **6,770,090** | 8,071,252 |
| Segment liabilities | **51,874** | 34,603 | **67,129** | 102,257 | **80,711** | 55,137 | **3,498** | 3,394 | **—** | — | **203,212** | 195,391 |
| Interest-bearing bank and other borrowings | | | | | | | | | | | **2,291,733** | 3,956,832 |
| Provision for premium on bonds redemption | | | | | | | | | | | **612,390** | 612,390 |
| Bonds payable | | | | | | | | | | | **621,671** | 621,671 |
| Convertible bonds payable | | | | | | | | | | | **906,750** | 906,750 |
| Amount due to an associate | | | | | | | | | | | **1,500,040** | 1,500,040 |
| Other unallocated liabilities | | | | | | | | | | | **357,872** | 341,018 |
| Total liabilities | | | | | | | | | | | **6,493,668** | 8,134,092 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation | **—** | — | **—** | — | **25,980** | 21,692 | **80** | 575 | **—** | — | **26,060** | 22,267 |
| Unallocated amounts | | | | | | | | | | | **8,957** | 7,852 |
| | | | | | | | | | | | **35,017** | 30,119 |
| Capital expenditure | **24** | 876 | **7,291** | 196,302 | **22,245** | 587,505 | **123** | 32 | **—** | — | **29,683** | 784,715 |
| Unallocated amounts | | | | | | | | | | | **530** | 3,994 |
| | | | | | | | | | | | **30,213** | 788,709 |
| Amortisation of goodwill on acquisition of a subsidiary | **—** | — | **—** | — | **—** | — | **1,717** | — | **—** | — | **1,717** | — |
| (Gain)/loss on disposal of subsidiaries | **—** | 3,927 | **(25,346)** | — | **(36,959)** | — | **—** | (23,157) | **—** | — | **(62,305)** | (19,230) |
| Reversal of impairment of fixed assets | **—** | — | **—** | — | **(76,484)** | — | **—** | — | **—** | — | **(76,484)** | — |
| Loss on disposal of investment properties | **—** | — | **281,312** | — | **—** | — | **—** | — | **—** | — | **281,312** | — |
| Release of negative goodwill upon disposal of an investment property | **—** | — | **(149,983)** | — | **—** | — | **—** | — | **—** | — | **(149,983)** | — |

## 5. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue and asset and certain expenditure information for the Group's geographical segments.

*Group*

| | Hong Kong | | Mainland China | | Vietnam | | Other locations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **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 | **1,947,200** | 762,556 | **—** | 100 | **162,313** | 143,934 | **—** | — | **2,109,513** | 906,590 |
| Other revenue | **10,070** | 3,033 | **—** | 4,960 | **44** | 226 | **—** | 74 | **10,114** | 8,293 |
| Total | **1,957,270** | 765,589 | **—** | 5,060 | **162,357** | 144,160 | **—** | 74 | **2,119,627** | 914,883 |
| Other segment information: | | | | | | | | | | |
| Segment assets | **4,371,839** | 6,132,998 | **6,371** | 7,163 | **396,157** | 366,766 | **14** | 250 | **4,774,381** | 6,507,177 |
| Capital expenditure | **17,079** | 785,304 | **—** | 13 | **13,134** | 3,392 | **—** | — | **30,213** | 788,709 |

## 6. RELATED PARTY TRANSACTIONS

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



| | | Group | |
|---|---|---|---|
| | | **2004** | 2003 |
| | Notes | **HK$'000** | HK$'000 |
| Interest income from an associate | (i) | **—** | 32,067 |
| Interest expenses to GPEL (note 19) | (ii) | **83,800** | 66,289 |
| Rental income from related companies | (iii) | **4,823** | 7,595 |
| Acquisition of a subsidiary from the eSun Group | (iv) | **10,300** | — |

*Notes:*

(i) The interest income from an associate arose from advances made thereto. Interest was charged at the prevailing market rates.

(ii) The terms of the interest paid or payable to GPEL are detailed in note 19 to the financial statements.

(iii) Rental income was received from one of the Company's major shareholders and its subsidiaries, and was based on terms stated in the lease agreement.

(iv) The consideration for the acquisition was determined with reference to a discounted cash flow based on the future management fee income generated from the unexpired term of the hotel management contracts held by that subsidiary, the details of which are set out in note 17 to the financial statements.

# Notes to Financial Statements

31st July, 2004

## 7. TURNOVER

Turnover comprises the proceeds from the sale of properties and investment properties, rental income, and income from hotel, restaurant and other operations. Revenue from the following activities has been included in turnover:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Sale of properties and investment properties | **1,293,262** | 98,633 |
| Property rentals | **280,006** | 390,232 |
| Hotel, restaurant and other operations | **536,245** | 417,725 |
| | **2,109,513** | 906,590 |

## 8. PROFIT FROM OPERATING ACTIVITIES

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

| | Note | Group 2004 HK$'000 | Group 2003 HK$'000 |
|---|---|---|---|
| Auditors' remuneration | | **1,460** | 1,900 |
| Depreciation | 14 | **35,017** | 30,119 |
| Staff costs: | | | |
| Wages and salaries (including directors' remuneration — note 10) | | **213,537** | 216,189 |
| Pension scheme contributions (defined contribution schemes) | | **9,021** | 8,675 |
| Less: Forfeited contributions | | **—** | (38) |
| Net pension scheme contributions* | | **9,021** | 8,637 |
| Net return on pension scheme assets (defined benefit schemes) | | **(1,863)** | (569) |
| | | **7,158** | 8,068 |
| Loss/(gain) on disposal of fixed assets | | **175** | (5,886) |
| Loss on disposal of investment properties | | **281,312** | — |
| Loss on disposal of properties under development | | **—** | 217 |
| Amortisation of goodwill on acquisition of a subsidiary | | **1,717** | — |
| Provision for doubtful debts | | **1,984** | — |
| Write off of/(recovery of) bad debts | | **1,587** | (14,045) |
| Minimum lease payments under operating leases in respect of land and buildings | | **3,759** | 5,135 |
| Foreign exchange (gains)/losses, net | | **(1,106)** | 118 |
| Rental income | | **(280,006)** | (390,232) |
| Less: Outgoings | | **48,919** | 65,769 |
| Net rental income | | **(231,087)** | (324,463) |
| Interest income from bank deposits | | **(2,046)** | (1,868) |
| Other interest income | | **(2,353)** | (34,580) |
| Dividend income from long term unlisted investments | | **(277)** | (100) |
| Write-back of contingent losses in respect of profit guarantees | | **—** | (3,963) |
| Gain on repurchase of bonds payable | | **—** | (9,041) |
| Gain on disposal of short term investments | | **—** | (34) |
| Unrealised gain of short term investments | | **—** | (438) |

* At 31st July, 2004, no forfeited contributions from the Contribution Schemes were available to the Group to reduce its contributions to the Contribution Schemes in future years (2003: Nil). The Contribution Schemes were terminated during the year.

# Notes to Financial Statements

31st July, 2004

## 9. FINANCE COSTS

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Interest on bank and other borrowings wholly repayable within five years | **124,074** | 215,357 |
| Interest on an amount due to GPEL — note 19 | **83,800** | 66,289 |
| Interest on bonds payable | **35,234** | 38,041 |
| Interest on convertible bonds payable | **50,398** | 46,922 |
| Total interest expenses | **293,506** | 366,609 |
| Other finance costs: | | |
| Provision for premium on bonds redemption | **—** | 41,893 |
| Provision for premium on loan repayment — note 27 | **5,521** | 21,042 |
| Bank charges and refinancing charges | **52,335** | 43,711 |
| | **351,362** | 473,255 |

## 10. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:



| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Fees | **260** | 260 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **19,450** | 21,462 |
| Pension scheme contributions (defined contribution schemes) | **290** | 319 |
| | **20,000** | 22,041 |

Fees include HK$260,000 (2003: HK$260,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

# Notes to Financial Statements

31st July, 2004

## 10. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

### (a) Directors' remuneration (continued)

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

| | Number of directors | |
|---|---|---|
| | **2004** | 2003 |
| Nil to HK$1,000,000 | **7** | 7 |
| HK$2,500,001 to HK$3,000,000 | **2** | — |
| HK$3,000,001 to HK$3,500,000 | — | 2 |
| HK$13,500,001 to HK$14,000,000 | **1** | — |
| HK$14,000,001 to HK$14,500,000 | — | 1 |
| | **10** | 10 |

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

### (b) Employees' remuneration

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 10(a) above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:



| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **4,872** | 5,158 |
| Pension scheme contributions (defined contribution schemes) | **236** | 258 |
| | **5,108** | 5,416 |

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2004** | 2003 |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |
| HK$2,500,001 to HK$3,000,000 | **1** | — |
| HK$3,000,001 to HK$3,500,000 | — | 1 |
| | **2** | 2 |

# Notes to Financial Statements

31st July, 2004

## 11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Provision for tax for the year: | | |
| Hong Kong | **16,463** | 31,027 |
| Outside Hong Kong | **—** | 6 |
| Deferred tax (note 30) | **(3,740)** | 16,570 |
| | **12,723** | 47,603 |
| Prior years' overprovision — Hong Kong | **(88,561)#** | (541) |
| Share of tax attributable to associates — Hong Kong | **1,333** | (1,596) |
| Tax charge/(credit) for the year | **(74,505)** | 45,466 |

# Included in prior years' overprovision was a sum of HK$82,234,000 which represented reversal of certain profits tax provision made by the Company in respect of certain contentious items arising in prior years. During the year, the Company reached an agreement with the Inland Revenue Department on the amount chargeable to the profits tax in respect of these contentious items.

# Notes to Financial Statements

31st July, 2004

## 11. TAX (continued)

A reconciliation of the tax expenses/(credit) applicable to loss before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Loss before tax | **(59,564)** | (404,488) |
| Tax at the statutory tax rate of 17.5% (2003: 17.5%) | **(10,424)** | (70,785) |
| Higher tax rate for other countries | **562** | 467 |
| Effect on opening deferred tax of increase in rate | **—** | 2,957 |
| Adjustments in respect of current tax of previous periods | **(88,561)** | (541) |
| Income not subject to tax | **(68,376)** | (14,097) |
| Expenses not deductible for tax purpose | **102,506** | 129,045 |
| Tax losses utilised from previous periods | **(10,212)** | (1,580) |
| Tax charge/(credit) at the Group's effective rate | **(74,505)** | 45,466 |



## 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st July, 2004 dealt with in the financial statements of the Company, was HK$121,393,000 (2003: net loss of HK$427,490,000) (note 32(b)).

## 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$39,313,000 (2003: HK$476,566,000 (as restated)) and the weighted average number of 3,746,002,000 (2003: 3,746,002,000) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31st July, 2004 has not been disclosed, as no diluting event existed during the year.

Diluted loss per share amount for the year ended 31st July, 2003 has not been disclosed, as the potential ordinary shares of the Group outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

# Notes to Financial Statements

31st July, 2004

## 14. FIXED ASSETS

### Group

| | 1st August, 2003 HK$'000 | Additions HK$'000 | Disposals/ write off HK$'000 | Disposal of subsidiaries (note 33(c)) HK$'000 | Write-back of impairment in value HK$'000 | Exchange realignments HK$'000 | **31st July, 2004 HK$'000** |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| Hotel properties | 2,254,965 | — | — | (519,262) | — | 512 | **1,736,215** |
| Leasehold land and buildings | 39,400 | — | (1,500) | — | — | — | **37,900** |
| Leasehold improvements | 59,207 | 1,329 | (11,600) | (24) | — | 1 | **48,913** |
| Furniture, fixtures and equipment | 351,507 | 20,087 | (18,190) | (36,226) | — | 110 | **317,288** |
| Motor vehicles | 22,733 | 389 | (1,809) | (42) | — | 12 | **21,283** |
| Computers | 11,334 | 1,009 | (366) | (559) | — | 1 | **11,419** |
| Motor vessels | 32,809 | 84 | — | — | — | — | **32,893** |
| | 2,771,955 | 22,898 | (33,465) | (556,113) | — | 636 | **2,205,911** |
| Accumulated depreciation and impairment: | | | | | | | |
| Hotel properties | 611,987 | — | — | — | (76,484) | — | **535,503** |
| Leasehold land and buildings | 10,934 | 1,999 | (1,500) | — | — | — | **11,433** |
| Leasehold improvements | 38,397 | 6,570 | (11,426) | — | — | — | **33,541** |
| Furniture, fixtures and equipment | 217,662 | 21,480 | (18,133) | (5,045) | — | 80 | **216,044** |
| Motor vehicles | 15,139 | 3,748 | (1,496) | (16) | — | 10 | **17,385** |
| Computers | 7,549 | 1,140 | (303) | (158) | — | — | **8,228** |
| Motor vessels | 32,634 | 80 | — | — | — | — | **32,714** |
| | 934,302 | 35,017 | (32,858) | (5,219) | (76,484) | 90 | **854,848** |
| Net book value | 1,837,653 | | | | | | **1,351,063** |



At 31st July, 2004, certain hotel properties of the Group with a total carrying amount of HK$964,509,000 were pledged to banks to secure banking facilities granted to the Group.

At 31st July, 2003, certain land and buildings, hotel properties and equipment of the Group with a total carrying amount of HK$1,468,393,000 were pledged to banks to secure banking facilities granted to the Group.

At 31st July, 2004, certain land and buildings of the Group with a carrying amount of HK$24,839,000 were pledged to a bank to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group.

The reversal of impairment provision of fixed assets arose from the directors' assessment of the estimated realisable value of the fixed assets, with reference to a valuation performed by a firm of independent chartered surveyors.

# Notes to Financial Statements

31st July, 2004

**14. FIXED ASSETS (continued)**

The Group's land and buildings and hotel properties included above are held under the following lease terms:

| | Hong Kong HK$'000 | Elsewhere HK$'000 | Total HK$'000 |
|---|---|---|---|
| At cost: | | | |
| Medium term leases | 1,204,214 | 539,148 | 1,743,362 |
| Long term leases | 30,753 | — | 30,753 |
| | 1,234,967 | 539,148 | 1,774,115 |

**Company**

| | 1st August, 2003 HK$'000 | Additions HK$'000 | Disposals/ write off HK$'000 | 31st July, 2004 HK$'000 |
|---|---|---|---|---|
| Cost: | | | | |
| Leasehold land and buildings | 8,647 | — | (1,500) | **7,147** |
| Leasehold improvements | 18,327 | 77 | (11,398) | **7,006** |
| Furniture, fixtures and equipment | 32,837 | 184 | (16,538) | **16,483** |
| Motor vehicles | 16,603 | 72 | (1,112) | **15,563** |
| Computers | 711 | 53 | — | **764** |
| | 77,125 | 386 | (30,548) | **46,963** |
| Accumulated depreciation: | | | | |
| Leasehold land and buildings | 4,982 | 1,306 | (1,500) | **4,788** |
| Leasehold improvements | 16,365 | 1,892 | (11,398) | **6,859** |
| Furniture, fixtures and equipment | 29,569 | 1,311 | (16,538) | **14,342** |
| Motor vehicles | 11,838 | 3,229 | (1,011) | **14,056** |
| Computers | 591 | 105 | — | **696** |
| | 63,345 | 7,843 | (30,447) | **40,741** |
| Net book value | 13,780 | | | **6,222** |

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

# Notes to Financial Statements

31st July, 2004

## 15. INVESTMENT PROPERTIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At beginning of year, at valuation | **4,503,410** | 4,987,860 | **2,141,700** | 2,488,500 |
| Additions, at cost | **7,291** | 2,052 | **7,291** | 1,583 |
| Arising on acquisition of subsidiaries (note 33(b)) | **—** | 194,250 | **—** | — |
| Arising on disposal of subsidiaries (note 33(c)) | **(252,000)** | — | **—** | — |
| Disposals | **(1,309,500)** | — | **(89,500)** | — |
| Surplus/(deficit) on revaluation | **258,779** | (680,752) | **141,709** | (348,383) |
| At end of year, at valuation | **3,207,980** | 4,503,410 | **2,201,200** | 2,141,700 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Long term leases | **1,000,000** | 890,000 | **—** | — |
| Medium term leases | **2,207,980** | 3,613,410 | **2,201,200** | 2,141,700 |
| | **3,207,980** | 4,503,410 | **2,201,200** | 2,141,700 |



At 31st July, 2004, the investment properties were stated at their aggregate open market value of HK$3,207,980,000, based on their existing use with reference to a valuation performed by Chesterton Petty Limited, independent chartered surveyors, on 31st July, 2004.

All investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK$3,198,000,000 (2003: HK$4,496,700,000) and HK$2,198,000,000 (2003: HK$2,141,700,000), respectively, were pledged to banks to secure banking facilities granted to the Group.

At 31st July, 2004, an investment property of the Group with a carrying amount of HK$3,200,000 was pledged to a bank to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group.

## 15. INVESTMENT PROPERTIES (continued)

On 18th August, 2003, Lucky Strike Investment Limited ("Lucky Strike"), a wholly-owned subsidiary of the Company, received and accepted a private tender offer from an independent third party to dispose of Causeway Bay Plaza 1 ("CBP1") for a cash consideration of HK$1,200,000,000 (the "Disposal"). Upon the completion of the Disposal on 23rd October, 2003, the Group recorded a loss of HK$272,973,000, and the negative goodwill attributable to CBP1 of HK$149,983,000 (note 32(a)) was released from the Group's accumulated losses to the consolidated profit and loss account as income. The Disposal constituted a major transaction of the Group, further details of which are set out in the Company's circular dated 11th September, 2003.

## 16. PROPERTIES UNDER DEVELOPMENT

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| At beginning of year, at cost less impairment losses | **1,400** | 116,592 |
| Other additions, at cost | **24** | 876 |
| Disposals | **—** | (95,517) |
| Arising on disposal of a subsidiary (note 33(c)) | **—** | (20,551) |
| At end of year, at cost | **1,424** | 1,400 |

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

## 17. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **1,167,427** | 1,850,772 |
| Amounts due from subsidiaries | **5,023,230** | 5,470,154 |
| Amounts due to subsidiaries | **(5,874,483)** | (5,379,592) |
| | **316,174** | 1,941,334 |
| Provision for impairment | **(2,761,933)** | (3,184,886) |
| | **(2,445,759)** | (1,243,552) |

# Notes to Financial Statements

31st July, 2004

## 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ registered capital | Class of shares held | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Chains Caravelle Hotel Joint Venture Company Limited | Vietnam | US$16,326,000 | * | — | 26.01 | Hotel operations |
| Diamond String Limited | Hong Kong | HK$10,000 | Ordinary | — | 65.00 | Hotel and restaurant operations |
| Furama Hotel Enterprises Limited | Hong Kong | HK$102,880,454 | Ordinary | — | 100.00 | Investment holding |
| Gilroy Company Limited | Hong Kong | HK$10,000 | Ordinary | 100.00 | — | Property investment |
| Glynhill Hotels and Resorts (Vietnam) Pte Ltd. ("GHR")# | Singapore/ Vietnam | S$2 | Ordinary | — | 100.00 | Provision of management and consultancy to hotel owners |
| Indochina Beach Hotel Joint Venture | Vietnam | US$10,800,000 | * | — | 62.63 | Hotel operations |
| Kolot Property Services Limited | Hong Kong | HK$2 | Ordinary | 100.00 | — | Property management |
| Lai Sun International Finance (Cayman Islands) Limited | Cayman Islands/ Hong Kong | US$2 | Ordinary | 100.00 | — | Bond issue |

# Notes to Financial Statements

31st July, 2004

## 17. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued/ registered capital | Class of shares held | Percentage of equity interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Lai Sun International Finance (1997) Limited | Cayman Islands/ Hong Kong | US$2 | Ordinary | 100.00 | — | Bond issue |
| Lai Sun Real Estate Agency Limited | Hong Kong | HK$2 | Ordinary | 100.00 | — | Property management and real estate agency |
| Lucky Strike Investment Limited | Hong Kong | HK$10,000 | Ordinary | 100.00 | — | Property investment |
| Peakflow Profits Limited | British Virgin Islands/ Hong Kong | US$1 | Ordinary | 100.00 | — | Investment holding |
| Transformation International Limited | British Virgin Islands/ Hong Kong | US$1 | Ordinary | 100.00 | — | Investment holding |
| Vutana Trading Investment (No. 2) Limited | British Virgin Islands/ Hong Kong | US$1 | Ordinary | — | 100.00 | Investment holding |

* These subsidiaries have registered rather than issued share capital.

\# On 26th September, 2003, the Group acquired a 100% interest in GHR from the eSun Group for a consideration of HK$10,300,000. GHR owns a hotel management and consultancy service contract for a hotel operating in Vietnam. A goodwill of the same amount arose from the acquisition, further details of which are set out in notes 18 and 33(b) to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to Financial Statements

31st July, 2004

## 17. INTERESTS IN SUBSIDIARIES (continued)

The Group's entire equity interest in Peakflow Profits Limited ("Peakflow") was pledged to another shareholder of Bayshore Development Group Limited ("Bayshore"), an investee of the Group, to secure a loan facility granted to the Group. Shares of certain other subsidiaries held by the Group were also pledged to banks to secure banking facilities granted to the Group.

**(a) A related party and a connected transaction with Lai Fung Holdings Limited ("Lai Fung")**

On 24th June, 2003, Basingstoke International Limited ("Basingstoke"), a wholly-owned subsidiary of the Group, entered into an agreement with Lai Fung Company Limited ("LFC"), a wholly-owned subsidiary of Lai Fung, pursuant to which Basingstoke agreed to sell and LFC agreed to purchase the entire issued share capital of Preparis Company Limited ("Preparis"), a wholly-owned subsidiary of Basingstoke, for a total consideration of HK$2,300,000. The principal assets of Preparis are the corporate debentures issued by Clearwater Bay Golf & Country Club. The transaction was completed on 25th June, 2003. As Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company, held a 42.25% interest in the Company and a 46.04% interest in Lai Fung at the time of the transaction, the transaction constituted a related party and a connected transaction for the Group as defined under SSAP 20 and the Listing Rules, respectively.

**(b) Disposal of Fortune Sign Venture Inc. ("Fortune Sign")**

On 5th May, 2004, the Company entered into an agreement (the "Majestic Disposal Agreement") with an independent third party to dispose of (i) 5 ordinary shares of US$1 each in the capital of Fortune Sign, representing 50% of its entire issued and paid up capital; and (ii) 50% of all indebtedness owed by Fortune Sign to the Company (if any) (the "Majestic Disposal"), at a predetermined consideration of HK$185,000,000 (subject to adjustment). The Majestic Disposal constituted a major transaction under the Listing Rules and was approved by the Company's shareholders at an extraordinary general meeting held on 30th June, 2004. The Majestic Disposal was completed on 31st July, 2004 for an adjusted consideration of HK$189,729,000 (note 33(c)) which is adjusted in accordance with the terms of the Majestic Disposal Agreement. Upon the completion of the Majestic Disposal, the Group's remaining 50% interest in the Fortune Sign Group was equity accounted for as associates of the Group.

The Majestic Disposal forms part of the Group's asset disposal programme to generate funding to reduce the Group's indebtedness. The proceeds of HK$189,729,000 received/receivable from the Majestic Disposal were used to repay certain borrowings of the Group and provide additional working capital to the Group.

# Notes to Financial Statements

31st July, 2004

## 18. GOODWILL

| | Group HK$'000 |
|---|---|
| Cost: | |
| At beginning of year | — |
| Acquisition of a subsidiary (note 33(b)) | 10,300 |
| At 31st July, 2004 | 10,300 |
| Accumulated amortisation: | |
| At beginning of year | — |
| Amortisation provided during the year (note 8) | 1,717 |
| At 31st July, 2004 | 1,717 |
| Net book value: | |
| At 31st July, 2004 | 8,583 |
| At 31st July, 2003 | — |

# Notes to Financial Statements

31st July, 2004

## 19. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Shares listed in Hong Kong, at cost | **—** | — | **1,803,163** | 1,803,163 |
| Unlisted shares, at cost | **—** | — | **342,579** | 18,134 |
| Share of net assets | **565,403** | 419,670 | **—** | — |
| | **565,403** | 419,670 | **2,145,742** | 1,821,297 |
| Amounts due from associates | **750,405** | 836,640 | **201,524** | 333,925 |
| Amounts due to associates | **(1,503,556)** | (1,503,728) | **(381)** | (3) |
| | **(187,748)** | (247,418) | **2,346,885** | 2,155,219 |
| Provision for impairment | **(158,966)** | (286,542) | **(1,097,352)** | (1,212,126) |
| | **(346,714)** | (533,960) | **1,249,533** | 943,093 |
| Amount due to an associate classified as a current liability | **1,500,040** | 1,500,040 | **—** | — |
| | **1,153,326** | 966,080 | **1,249,533** | 943,093 |
| Market value of listed shares at the balance sheet date | **85,654** | 59,958 | **76,240** | 53,368 |



The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to associates, except for the Debt, are unsecured, interest-free and have no fixed terms of repayment.

# Notes to Financial Statements

31st July, 2004

## 19. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

| Name | Business structure | Place of incorporation/ registration and operations | Class of shares held | Percentage of capital held | Principal activities |
|---|---|---|---|---|---|
| Bushell Limited | Corporate | Hong Kong | Ordinary | 50.00 | Property investment |
| East Asia Entertainment Limited | Corporate | Hong Kong | Ordinary | 42.54 | Entertainment activity production |
| East Asia Satellite Television Limited | Corporate | Hong Kong | Ordinary | 42.54 | Programme production, distribution and broadcasting |
| East Asia — Televisão Por Satélite, Limitada# | Corporate | Macau | Quota | 42.54 | Programme production, distribution and broadcasting |
| eSun Holdings Limited | Corporate | Bermuda/ Hong Kong | Ordinary | 42.54 | Investment holding |
| Fortune Sign Venture Inc. | Corporate | British Virgin Islands/ Hong Kong | Ordinary | 50.00 | Investment holding |
| Kippford Enterprises Limited | Corporate | Hong Kong | Ordinary | 50.00 | Property development |
| Majestic Hotel Enterprises Limited | Corporate | Hong Kong | Ordinary | 50.00 | Hotel and restaurant operations |
| Majestic Centre Limited | Corporate | Hong Kong | Ordinary | 50.00 | Property investment |

# Not audited by Ernst & Young Hong Kong or any other Ernst & Young International member firms.

# Notes to Financial Statements

31st July, 2004

**19. INTERESTS IN ASSOCIATES (continued)**

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The entire shareholdings of certain associates held by the Group have been pledged to secure a loan facility granted to the Group.

**eSun and its subsidiaries (collectively the "eSun Group")**

Included in the Group's share of net assets of associates is the share of net assets of eSun which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the consolidated net assets of eSun and its subsidiaries (collectively the "eSun Group") are set out below:

*eSun Group**

| | As at 30th June, 2004 HK$'000 |
|---|---|
| Non-current assets | 1,981,229 |
| Current assets | 57,677 |
| Current liabilities | (172,593) |
| Non-current liabilities | (120,297) |
| Minority interests | (196) |
| | 1,745,820 |
| Contingent liabilities | |
| Guarantees given to the Company in connection with the disposal of an associate to the Company in prior years | 25,000 |

**19. INTERESTS IN ASSOCIATES (continued)**

**eSun and its subsidiaries (collectively the "eSun Group") (continued)**

| | Six months ended 30th June, 2004 HK$'000 |
|---|---|
| Turnover | 43,104 |
| Loss before tax | (33,108) |
| Tax | (11) |
| Net loss from ordinary activities attributable to shareholders | (33,119) |

* Since eSun's financial year end date is 31st December, the above amounts have been extracted from the published unaudited interim report of eSun for the six months ended 30th June, 2004.

The Group's share of net assets of the eSun Group included in the Group's interests in associates as at 31st July, 2004 was HK$793,145,000.

At 31st July, 2004, FHEL owed the Debt to GPEL, a wholly-owned subsidiary of eSun. Pursuant to an intercompany debt deed (the "Debt Deed") entered into by the Company, eSun, FHEL and GPEL on 30th June, 2000, the Debt bears interest at a rate of 5% per annum. The settlement date of the Debt was the earlier of 31st December, 2002, or the day on which the Exchangeable Bonds (note 28) and the Convertible Bonds (note 29) are repaid in full. The Debt was not repaid on 31st December, 2002 and remained outstanding as at 31st July, 2004. On 28th June, 2004, the Company, eSun, FHEL and GPEL entered into the eSun Settlement Agreement with respect to the restructuring of the Debt. Upon the Completion, the overdue interest payable to GPEL will be waived. Details of the terms and conditions of the eSun Settlement Agreement are disclosed in note 2 to the financial statements and the Circular. The extent of the possible recovery by the eSun Group in respect of the Debt depends upon the successful implementation of the Settlements as detailed in note 2 to the financial statements.



At 30th June, 2004, the film rights held by the eSun Group amounted to HK$192,142,000 which represented all rights, titles and interests in 127 films (the "127 Film Rights") valued at HK$197,541,000 as at 31st December, 2003. The directors of eSun had engaged an independent third party (the "Valuer") to perform a valuation (the "Valuation") on the 127 Film Rights as at 31st December, 2003. Having regard to the Valuation performed by the Valuer and having regard to the current market conditions, the directors of eSun are of the opinion that there is no impairment on the film rights held by eSun as at 30th June, 2004.

# Notes to Financial Statements

31st July, 2004

### 19. INTERESTS IN ASSOCIATES (continued)

**eSun and its subsidiaries (collectively the "eSun Group") (continued)**

With respect to the financial statements of the eSun Group for the year ended 31st December, 2003, the auditors of eSun stated in their reports that:

(i) they had been unable to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy themselves as to the recoverability of the Debt;

(ii) they had also been unable to obtain sufficient reliable information to carry out the auditing procedures required by Statement of Auditing Standards 520 "Using the Work of an Expert", issued by Hong Kong Institute of Certified Public Accountants, to satisfy themselves as to (a) the competence and objectivity of the Valuer; and (b) the adequacy of the scope of the Valuer's work as to the 127 Film Rights. They stated that they were unable to obtain sufficient reliable information, or carry out alternative auditing procedures to satisfy themselves as to the appropriateness of the basis of computation of the amount of the amortisation charge for the Film Rights; and

(iii) they were not able to determine whether the going concern basis adopted in the preparation of the financial statements of the eSun Group was appropriate because of the significance of the uncertainty relating to the success of the measures being undertaken by the eSun Group such as obtaining funding from the bankers and financial creditors, and the tightening of cost controls.

Because of the significance of each of the possible effects of the scope limitations in the evidence available to them and the fundamental uncertainty relating to the going concern basis, the auditors of eSun issued a disclaimed opinion on the financial statements of the eSun Group for the year ended 31st December, 2003.



On 6th August, 2003, a sale and purchase agreement was entered into by the Company and various parties, pursuant to which the Company agreed to dispose of its entire interests in Omicron International Limited ("Omicron"), a then 43.5% owned associate of the Group, together with its loan to Omicron with an aggregate carrying value of HK$65,509,000, for HK$35,000,000. An impairment loss of HK$30,509,000 on the Group's interest in an associate was made in the consolidated profit and loss account in the prior year. On 14th August, 2003, the transaction was completed, and it did not give rise to any further gain or loss on disposal to the Group for the current year.

The impairment of associates in the prior year arose from the directors' assessment of the estimated realisable value of the property development project carried out by these associates with reference to the then prevailing market conditions.

Certain impairment provisions previously made were reversed and credited to the consolidated profit and loss account during the year with reference to the prevailing market conditions of the property market in Hong Kong as at 31st July, 2004.

# Notes to Financial Statements

31st July, 2004

## 20. LONG TERM INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unlisted equity investments, at cost | **174,565** | 174,565 | **8,101** | 8,101 |
| Advances to investees | **480,165** | 590,765 | **134,018** | 244,618 |
| | **654,730** | 765,330 | **142,119** | 252,719 |
| Provision for impairment | **(373,767)** | (407,539) | **(112,000)** | (151,000) |
| | **280,963** | 357,791 | **30,119** | 101,719 |

The impairment of long term unlisted investments in prior years arose from directors' assessment of the estimated realisable value of the underlying property development projects carried out by the investees with reference to the then prevailing market conditions.

Certain impairment provisions previously made were reversed and credited to the consolidated profit and loss account during the year with reference to the prevailing market conditions of the property market in Hong Kong as at 31st July, 2004.

The entire shareholdings of, and advances to, Bayshore, with an aggregate carrying value of HK$240,729,000, have been pledged to another shareholder of Bayshore, to secure a loan facility granted to the Group.



## 21. PENSION SCHEME ASSETS

(a) The movements in the Group's net pension scheme assets in the balance sheets during the year were as follows:

| | | **2004** | 2003 |
|---|---|---|---|
| | Notes | **HK$'000** | HK$'000 |
| At beginning of year | | **18,298** | 13,932 |
| Acquisition of subsidiaries | 33(b) | **—** | 3,701 |
| Contributions paid to/(returned from) the pension schemes, net | | **(20,161)** | 96 |
| Net return on pension scheme assets recognised in the profit and loss account | 8 | **1,863** | 569 |
| At end of year | 21(b) | **—** | 18,298 |

# Notes to Financial Statements

31st July, 2004

## 21. PENSION SCHEME ASSETS (continued)

(b) The components of the pension scheme net assets as at the balance sheet date, were as follows:

| | Note | **2004** **HK$'000** | 2003 HK$'000 |
|---|---|---|---|
| Present value of defined benefit obligation | | — | (16,201) |
| Fair value of scheme assets | | — | 28,739 |
| | | — | 12,538 |
| Net cumulative actuarial losses remaining in the balance sheet | | — | 5,760 |
| Net assets recognised | 21(a) | — | 18,298 |

(c) The components of the Group's net pension scheme cost recognised in the consolidated profit and loss account for the year, together with the actual return on the scheme assets for the year, were as follows:

| | Note | **2004** **HK$'000** | 2003 HK$'000 |
|---|---|---|---|
| Current service cost | | — | (119) |
| Interest cost on defined benefit obligation | | — | (73) |
| Expected return on pension scheme assets | | — | 761 |
| Return on pension scheme assets upon termination of the pension scheme | | **1,863** | — |
| | 21(a) | **1,863** | 569 |
| Actual return on scheme assets | | — | 739 |

The above amount of the Group's net pension scheme cost was included in administrative expenses on the face of the consolidated profit and loss account.

The Schemes were terminated on 17th November, 2003 and 1st June, 2004 and the excessive funds were returned to the Group during the year.

# Notes to Financial Statements

31st July, 2004

## 22. SHORT TERM INVESTMENTS

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Equity investments listed in Hong Kong, at market value | **224** | 649 |
| Unlisted equity investments, at fair value | **6,282** | 6,721 |
| | **6,506** | 7,370 |

## 23. COMPLETED PROPERTIES FOR SALE

The completed properties for sale are carried at net realisable value as at the balance sheet date.

At 31st July, 2003, certain completed properties for sale of the Group with a total carrying amount of HK$5,126,500 were employed to generate operating lease rental income for the Group, further summary details of which are included in note 36(a) to the financial statements.

## 24. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

(a) The Group maintains various credit policies for different business operations in accordance with the business practice and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are payable by tenants in accordance with the terms of the tenancy agreements and are normally payable in advance. Hotel and restaurant charges are mainly settled by customers on a cash basis except for those corporate clients who are maintaining credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements.

An aged analysis of the trade debtors at the balance sheet date is as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Trade debtors: | | |
| Less than 30 days | **24,037** | 27,314 |
| 31 – 60 days | **3,468** | 6,335 |
| 61 – 90 days | **1,156** | 3,639 |
| Over 90 days | **6,154** | 9,515 |
| | **34,815** | 46,803 |
| Other debtors and deposits | **88,902** | 88,382 |
| | **123,717** | 135,185 |

# Notes to Financial Statements

31st July, 2004

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

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

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Trade creditors: | | |
| Less than 30 days | **12,768** | 15,209 |
| 31 – 60 days | **2,179** | 3,695 |
| 61 – 90 days | **301** | 28 |
| Over 90 days | **714** | 316 |
| | **15,962** | 19,248 |
| Other creditors, deposits received and accruals | **437,787** | 289,423 |
| | **453,749** | 308,671 |

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **108,662** | 113,459 | **37,876** | 66,769 |
| Time deposits | **519,441** | 117,858 | **433,552** | 78,797 |
| | **628,103** | 231,317 | **471,428** | 145,566 |
| Less: Amounts pledged for bank loans due within one year# | | | | |
| Bank balances | **(3,795)** | (38,594) | **(3,795)** | (38,594) |
| Time deposits | **(85,862)** | (81,796) | **(84,862)** | (78,797) |
| | **(89,657)** | (120,390) | **(88,657)** | (117,391) |
| Less: Amount of a time deposit pledged to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group | **(8,000)** | — | **(8,000)** | — |
| Cash and cash equivalents | **530,446** | 110,927 | **374,771** | 28,175 |

# At 31st July, 2004, such bank balances and time deposits were pledged to banks to secure banking facilities granted to the Group. At 31st July, 2003, such bank balances and time deposits were pledged to banks to secure banking facilities granted to the Group and an investee company.

At the balance sheet date, the cash and bank balances of the Group denominated in Vietnamese Dong ("VND") amounted to HK$4,407,000 (2003: HK$2,750,000). The VND is not freely convertible into other currencies. However, under the Regulations on Foreign Exchange Control of the Socialist Republic of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

# Notes to Financial Statements

31st July, 2004

## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank borrowings, secured | **2,060,600** | 3,725,699 | **1,079,500** | 1,858,700 |
| Other borrowings, secured | **231,133** | 231,133 | **22,800** | 22,800 |
| | **2,291,733** | 3,956,832 | **1,102,300** | 1,881,500 |
| Portion classified as current liabilities | **(2,291,733)** | (3,956,832) | **(1,102,300)** | (1,881,500) |
| Non-current portion | **—** | — | **—** | — |

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

Of the Group's bank borrowings as at 31st July, 2004 of HK$2,060,600,000, borrowings of HK$1,276,100,000 were originally due for repayment on 30th September, 2004. The repayment date was subsequently extended to 31st March, 2005. The remaining bank borrowing of HK$784,500,000 was repayable within 12 months from 31st July, 2004 in accordance with the original repayment term as stipulated in the original loan agreement.



HK$208,333,000 (2003: HK$208,333,000) of the secured other borrowings bears interest at a fixed rate and is repayable in full on 21st February, 2005 in accordance with the terms of the loan agreement. The remaining secured other borrowings of HK$22,800,000 (2003: HK$22,800,000) bears interest at a fixed rate and was due for repayment on 31st December, 2002 and remaining outstanding as at 31st July, 2004.

As detailed in note 2 to the financial statements, the Group was in default of repaying the Debt and the Bonds. Such defaults constituted breach of the cross-default clauses under the terms of the Group's banking and other loan facilities. Accordingly, the Group's bank borrowings of HK$784,500,000 and other borrowings of HK$208,333,000 together with the corresponding provision for premium on loan repayment of HK$26,875,000 (note 27) which had an original maturity term of beyond one year were classified as current liabilities as at 31st July, 2003, as a result of such cross-default.

### 27. PROVISION FOR PREMIUM ON LOAN REPAYMENT

| | Group HK$'000 |
|---|---|
| At 1st August, 2003 | 26,875 |
| Provided during the year — note 9 | 5,521 |
| At 31st July, 2004 | 32,396 |

### 28. BONDS PAYABLE

| | Group | |
|---|---|---|
| | **2004 HK$'000** | 2003 HK$'000 |
| At beginning of year | **621,671** | 740,025 |
| Repurchased and cancelled | **—** | (77,220) |
| Repaid during the year | **—** | (41,134) |
| At end of year | **621,671** | 621,671 |

US$115,000,000 exchangeable bonds (the "Exchangeable Bonds") were issued on 28th February, 1997 by a wholly-owned subsidiary of the Company, Lai Sun International Finance (Cayman Islands) Limited (the "Issuer") pursuant to a trust deed dated 28th February, 1997 (the "EB Trust Deed") entered into between the Company, the Issuer and DB Trustee (Hong Kong) Limited (then known as BT Trustees (Hong Kong) Limited) (the "Trustee"). The Exchangeable Bonds are unconditionally and irrevocably guaranteed by the Company. The Exchangeable Bonds initially bore interest on the principal amount outstanding at the rate of 5% per annum.

Pursuant to a supplemental trust deed entered into between the Company, the Issuer and the Trustee on 19th January, 2001, unless previously redeemed, purchased and cancelled or exchanged, the Exchangeable Bonds were to be redeemed at 151.4439% of their principal amount (the "Maturity Redemption Price") on 28th February, 2004. The Exchangeable Bonds were redeemable at the option of the holders of Exchangeable Bonds (the "Exchangeable Bondholders") on 31st December, 2002 (the "Optional Redemption Date") at 139.1033% of their principal amount. In addition, the Exchangeable Bonds were redeemable at any time during the period from 28th February, 1997 to 28th February, 2004 upon the occurrence of any of the certain other events as defined in the related bond document at various pre-determined prices ranging from 100% of the principal amount to the Maturity Redemption Price.

# Notes to Financial Statements

31st July, 2004

## 28. BONDS PAYABLE (continued)

Pursuant to an extraordinary resolution passed on 17th December, 2002, the Exchangeable Bonds were amended, as reflected by the terms of a second supplemental trust deed entered into between the Company, the Issuer and the Trustee on 21st January, 2003. The Exchangeable Bonds ceased to accrue any further redemption premium with effect from 31st December, 2002. The Exchangeable Bonds were to bear interest at the rate of 4% per annum on an aggregate amount of the principal and accrued redemption premium with effect from 31st December, 2002. The Maturity Redemption Price was amended from 151.4439% to 139.1033% of their principal amount outstanding, and the Optional Redemption Date was extended from 31st December, 2002 to 31st March, 2003.

The date of unconditional redemption at the option of the Exchangeable Bondholders was deferred to 31st March, 2003 but the Exchangeable Bonds have not been redeemed up to the current date. On 24th April, 2003, the Group, through its wholly-owned subsidiary, repurchased part of the Exchangeable Bonds of US$9,900,000 in principal, together with the related premium and interest of US$4,030,000 from a bank for a consideration of US$12,771,000. The repurchased bonds were then cancelled pursuant to the terms and conditions of the relevant bond documents. On 18th July, 2003, extraordinary resolutions were passed by the Exchangeable Bondholders approving (1) the disposal of a 32.75% equity interest in Asia Television Limited ("ATV") and a 50% equity interest in ATV.com Limited (the "ATV Transaction"), and (2) the release of ATV's shares from the security created by the mortgage of shares and security trust deed dated 19th January, 2001 between, inter alias, the Company and the Trustee in favour of the Exchangeable Bonds and the subsequent modification to the terms and conditions of the Exchangeable Bonds. On 25th July, 2003, the ATV Transaction was completed and an amount of US$5,273,600 was repaid to the Exchangeable Bondholders on 30th July, 2003 as partial payment of the aggregate amount outstanding on the Exchangeable Bonds. As a result of such partial repayment, the Maturity Redemption Price was further amended to 141.6906% of the principal amount outstanding in respect of such bonds.



At 31st July, 2004, the Exchangeable Bondholders still share:

(1) on a pari passu and pro rata basis, with the Convertible Bondholders (as defined in note 29) the security of a second charge over 285,512,791 shares of HK$0.50 each in the issued share capital of eSun indirectly beneficially owned by the Company; and

(2) on a pari passu and pro rata basis, with the Convertible Bondholders and eSun of a limited recourse second charge over 6,500 shares of HK$1.00 each in the Ritz-Carlton Security beneficially owned by the Company.

During the year, the Company reached an agreement in principle with the Informal Committee of the Bondholders concerning the Bonds Settlement.

Resolutions to approve the Bonds Settlement were duly passed by the Exchangeable Bondholders and the Convertible Bondholders on 6th October, 2004.

Details of the principal terms for the Bonds Settlement are set out in note 2 to the financial statements.

## 29. CONVERTIBLE BONDS PAYABLE

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **906,750** | 965,250 |
| Repaid during the year | **—** | (58,500) |
| At end of year | **906,750** | 906,750 |

US$150,000,000 4% convertible guaranteed bonds (the "Convertible Bonds") were issued on 4th August, 1997 by Lai Sun International Finance (1997) Limited ("LSIF 1997"), a wholly-owned subsidiary of the Company pursuant to a trust deed dated 4th August, 1997 (the "CB Trust Deed") entered into between the Company, LSIF 1997 and The Law Debenture Trust Corporation p.l.c. (the "CB Trustee"). The Convertible Bonds are unconditionally and irrevocably guaranteed by the Company. The Convertible Bonds initially bore interest at a rate of 4% per annum on their principal amount.

Pursuant to the initial bond document of the Convertible Bonds entered into on 4th August, 1997 (the "CB Document"), unless previously redeemed, purchased, cancelled or converted, the Convertible Bonds were convertible into fully paid ordinary shares of HK$0.50 each in the Company at the option of the holders of Convertible Bonds (the "Convertible Bondholders") at an original conversion price of HK$11.50 per share at a fixed exchange rate of HK$7.80 = US$1.00 on conversion, at any time from 4th September, 1997 to 24th June, 2002 (the "CB Maturity Date"), both dates inclusive. Pursuant to a subsequent supplemental trust deed dated 19th January, 2001, the CB Maturity Date was extended to 31st December, 2002 and the conversion price was amended to HK$1.10 per share. The conversion price was subject to adjustments upon the occurrence of certain events as defined in the CB Document. Unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds were redeemable at 136.5927% of their outstanding principal amount (the "CB Maturity Redemption Price") plus interest accrued at the CB Maturity Date. The rights to the Convertible Bondholders to convert into fully paid ordinary shares of HK$0.50 each in the Company lapsed upon the expiry of such CB Maturity Date.

Pursuant to an extraordinary resolution passed on 19th December, 2002, the Convertible Bonds were amended, as reflected by the terms of another supplemental trust deed entered into between the Company, LSIF 1997 and the CB Trustee on 21st January, 2003. The Convertible Bonds ceased to accrue any further redemption premium with effect from 31st December, 2002. The Convertible Bonds were to bear interest at a rate of 4% per annum on an aggregate amount of the principal and accrued redemption premium with effect from 31st December, 2002, the Maturity Date was extended from 31st December, 2002 to 31st March, 2003.

# Notes to Financial Statements

31st July, 2004

## 29. CONVERTIBLE BONDS PAYABLE (continued)

The Convertible Bonds were due for redemption on 31st March, 2003 but were not so redeemed up to the current date. On 18th July, 2003, extraordinary resolutions were passed by the Convertible Bondholders approving the ATV Transaction and the release of ATV's shares from the security created by the mortgage of shares and security trust deed dated 19th January, 2001 between, inter alias, the Company and the CB Trustee in favour of the Convertible Bondholders. On 25th July, 2003, the ATV Transaction was completed and an amount of US$7,500,000 was paid to the Convertible Bondholders as partial repayment of the aggregate amount outstanding on the Convertible Bonds. As a result of such partial repayment, the CB Maturity Redemption Price was further amended to 139.9535% of each Convertible Bond's outstanding principal amount as at 31st July, 2004.

At 31st July, 2004, the Convertible Bondholders share, on a pari passu and pro rata basis, with the Exchangeable Bondholders, the security as described in note 28(1) and share with the Exchangeable Bondholders and eSun, on a pari passu and pro rata basis, the security as described in note 28(2).

During the year, the Company reached an agreement in principle with the Informal Committee of the Bondholders concerning the Bonds Settlement.

Resolutions to approve the Bonds Settlement were duly passed by the Exchangeable Bondholders and the Convertible Bondholders on 6th October, 2004.

Details of the principal terms of the Bonds Settlement are set out in note 2 to the financial statements.

# Notes to Financial Statements

31st July, 2004

## 30. DEFERRED TAX

The movements in deferred tax asset/(liabilities) during the year are as follows:

**Group**

| | Accelerated capital allowance HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1st August, 2003 | | | |
| As previously reported | **(5,065)** | **—** | **(5,065)** |
| Prior year adjustment: | | | |
| SSAP 12 — restatement of deferred tax | **(75,138)** | **27,026** | **(48,112)** |
| As restated | **(80,203)** | **27,026** | **(53,177)** |
| Deferred tax credited to the consolidated profit and loss account during the year (note 11) | **5,061** | **(1,321)** | **3,740** |
| Arising on disposal of subsidiaries (note 33(c)) | **15,288** | **—** | **15,288** |
| At 31st July, 2004 | **(59,854)** | **25,705** | **(34,149)** |
| At 1st August, 2002 | | | |
| As previously reported | (380) | — | (380) |
| Prior year adjustment: | | | |
| SSAP 12 — restatement of deferred tax | (56,128) | 24,966 | (31,162) |
| As restated | (56,508) | 24,966 | (31,542) |
| Deferred tax debited to the consolidated profit and loss account during the year, including a charge of HK$2,957,000 due to the effect of a change in tax rates (note 11) | (18,630) | 2,060 | (16,570) |
| Arising on acquisition of subsidiaries (note 33(b)) | (5,065) | — | (5,065) |
| At 31st July, 2003 | (80,203) | 27,026 | (53,177) |

# Notes to Financial Statements

31st July, 2004

### 30. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of HK$1,395,145,000 (2003: HK$1,390,501,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as such losses are not probable to be utilised in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 3 to the financial statements. This caused a change in accounting policy which has resulted in an increase in the Group's deferred tax liability as at 31st July, 2003 and 2002 by HK$48,112,000 and HK$31,162,000, respectively. The consolidated net loss attributable to shareholders for the year ended 31st July, 2003 has been decreased by HK$15,526,000, and the consolidated accumulated losses at 1st August, 2003 and 2002 have been increased by HK$44,161,000 and HK$28,635,000, respectively, as detailed in the consolidated statement of changes in equity. Accordingly, the minority interests at 1st August, 2003 and 2002 have been decreased by HK$3,951,000 and HK$2,527,000, respectively.

### 31. SHARE CAPITAL

| | **Number of shares 2004 '000** | **Nominal value 2004 HK$'000** | Number of shares 2003 '000 | Nominal value 2003 HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.50 each | **10,000,000** | **5,000,000** | 10,000,000 | 5,000,000 |
| Preference shares of HK$1.00 each | **1,200,000** | **1,200,000** | 1,200,000 | 1,200,000 |
| | | **6,200,000** | | 6,200,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK$0.50 each | **3,746,002** | **1,873,001** | 3,746,002 | 1,873,001 |

# Notes to Financial Statements

31st July, 2004

## 32. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 38 and 39 of the financial statements.

Amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated reserves.

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31st July, 2004, which arose from the acquisition of subsidiaries prior to 1st August, 2001, are as follows:

| | Goodwill eliminated against capital reserve HK$'000 | Goodwill eliminated against accumulated losses HK$'000 | Negative goodwill credited to accumulated losses HK$'000 |
|---|---|---|---|
| Cost: | | | |
| At beginning of year | 62,619 | 32,270 | (149,983) |
| Disposal of an investment property (note 15) | — | — | 149,983 |
| At 31st July, 2004 | 62,619 | 32,270 | — |
| Accumulated impairment: | | | |
| At beginning of year and at 31st July, 2004 | (62,619) | — | — |
| Net amount: | | | |
| At 31st July, 2004 | — | 32,270 | — |
| At 31st July, 2003 | — | 32,270 | (149,983) |

# Notes to Financial Statements

31st July, 2004

## 32. RESERVES (continued)

### (b) Company

| | Share premium account HK$'000 | Investment property revaluation reserve HK$'000 | Capital redemption reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st August, 2002 | 5,858,164 | 1,629,575 | 1,200,000 | (10,297,700) | (1,609,961) |
| Deficit on revaluation of investment properties | — | (348,383) | — | — | (348,383) |
| Net loss for the year | — | — | — | (427,490) | (427,490) |
| At 31st July, 2003 and 1st August, 2003 | 5,858,164 | 1,281,192 | 1,200,000 | (10,725,190) | (2,385,834) |
| Surplus on revaluation of investment properties | — | 141,709 | — | — | 141,709 |
| Release upon disposal of an investment property | — | 8,340 | — | — | 8,340 |
| Net profit for the year | — | — | — | 121,393 | 121,393 |
| At 31st July, 2004 | 5,858,164 | 1,431,241 | 1,200,000 | (10,603,797) | (2,114,392) |



## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transactions

In the prior year, the Group had the following major non-cash transactions:

(i) The reduction of indebtedness owing to another shareholder of Bayshore of HK$463,334,000 was settled by means of a transfer of a 20% interest in Bayshore and the assignment of shareholders' loans plus accrued interest, and therefore had no effect on the Group's cash flows.

(ii) The consideration for the acquisition of Fortune Sign was partly set off by a long term prepayment of HK$194,000,000, and therefore had no effect on the Group's cash flows.

# Notes to Financial Statements

31st July, 2004

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

### (b) Acquisition of subsidiaries

| | Notes | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Fixed assets | | — | 555,750 |
| Investment properties | 15 | — | 194,250 |
| Pension scheme assets | 21(a) | — | 3,701 |
| Inventories | | — | 1,106 |
| Debtors and deposits | | — | 16,590 |
| Cash and bank balances | | — | 7,927 |
| Creditors, deposits received and accruals | | — | (20,673) |
| Tax payable | | — | (3,586) |
| Deferred tax | 30 | — | (5,065) |
| | | — | 750,000 |
| Goodwill | | **10,300** | — |
| | | **10,300** | 750,000 |
| Satisfied by: | | | |
| Cash | | **10,300** | 556,000 |
| Long term prepayment | | — | 194,000 |
| | | **10,300** | 750,000 |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Cash consideration | **10,300** | 556,000 |
| Cash and bank balances acquired | — | (7,927) |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | **10,300** | 548,073 |

# Notes to Financial Statements

31st July, 2004

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

### (b) Acquisition of subsidiaries (continued)

As further explained in note 17 to the financial statements, the Group acquired the entire 100% interest in GHR from the eSun Group during the year. Since becoming a subsidiary, GHR contributed turnover of HK$6,059,000 and net profit of HK$5,833,000 to the consolidated profit and loss account for the year ended 31st July, 2004.

The subsidiaries acquired in the prior year contributed HK$51,298,000 to the Group's turnover and profit of HK$10,079,000 to the consolidated loss after tax and before minority interests for the year ended 31st July, 2003.

### (c) Disposal of subsidiaries

| | Notes | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Fixed assets | 14 | **550,894** | 16,394 |
| Investment properties | 15 | **252,000** | — |
| Properties under development | 16 | **—** | 20,551 |
| Long term investment | | **—** | 2,545 |
| Inventories | | **995** | 829 |
| Debtors and deposits | | **15,753** | 12,568 |
| Pledged deposit | | **2,000** | — |
| Cash and cash equivalents | | **4,632** | 1,875 |
| Creditors, deposits received and accruals | | **(5,296)** | (28,172) |
| Tax payable | | **(1,255)** | — |
| Interest-bearing bank and other borrowings | | **(500,000)** | (39,582) |
| Deferred tax | 30 | **(15,288)** | — |
| Minority interests | | **—** | 2,062 |
| Release of exchange fluctuation reserve | | **—** | (2,305) |
| | | **304,435** | (13,235) |
| Reclassification to interests in associates | | **(148,371)** | — |
| Release of investment property revaluation reserve | | **(28,640)** | — |
| Gain on disposal | | **62,305** | 19,230 |
| | | **189,729** | 5,995 |
| Satisfied by: | | | |
| Cash | | **185,000** | 5,995 |
| Receivable | | **4,729** | — |
| | | **189,729** | 5,995 |

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

### (c) Disposal of subsidiaries (continued)

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

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash consideration received | **185,000** | 5,995 |
| Cash and cash equivalents disposed of | **(4,632)** | (1,875) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | **180,368** | 4,120 |

The subsidiaries disposed of during the year contributed turnover of HK$100,167,000 and net profit of HK$32,146,000 to the consolidated profit and loss account for that year.

The results of the subsidiaries disposed of during the prior year had no significant impact on the Group's consolidated turnover or loss after tax for that year.

## 34. COMMITMENTS

The Group had the following commitments not provided for in the financial statements at the balance sheet date:

| | **Group** | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Capital commitments — authorised, but not contracted for | **—** | 2,724 |

The Company had no significant commitments at the balance sheet date (2003: Nil).

# Notes to Financial Statements

31st July, 2004

## 35. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| Subsidiaries | — | — | **1,137,829** | 1,988,793 |
| Associates | **469,088** | 194,772 | **469,088** | 194,772 |
| | **469,088** | 194,772 | **1,606,917** | 2,183,565 |
| Guarantees given in connection with the issue of Exchangeable Bonds | — | — | **621,671** | 621,671 |
| Guarantees given in connection with the issue of Convertible Bonds | — | — | **906,750** | 906,750 |
| | **469,088** | 194,772 | **3,135,338** | 3,711,986 |



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

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

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

## 36. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

During the year, the Group leases its investment properties (note 15) (2003: investment properties and certain completed properties for sale (note 23)) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **151,491** | 178,336 | **110,696** | 115,036 |
| In the second to fifth years, inclusive | **130,727** | 110,617 | **76,651** | 65,889 |
| | **282,218** | 288,953 | **187,347** | 180,925 |

### (b) As lessee

The Group leases certain properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.



At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **3,506** | 5,226 | **2,654** | 2,894 |
| In the second to fifth years, inclusive | **2,884** | 6,222 | **2,885** | 5,422 |
| | **6,390** | 11,448 | **5,539** | 8,316 |

## 37. POST BALANCE SHEET EVENTS

During the year ended 31st July, 2004, the Company entered into the eSun Settlement Agreement with eSun and reached an agreement in principle with the Bondholders for the settlement of outstanding indebtedness due by the Group, respectively. Details of the subsequent development on the Settlements are set out in notes 2, 19, 28 and 29 to the financial statements.

# Notes to Financial Statements

31st July, 2004

## 38. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current year's presentation.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12th November, 2004.