

Notes to Financial Statements

31st July, 2000

15. INTERESTS IN SUBSIDIARIES (continued)

Shanghai Li Xing, Shanghai Lai Fung Dept., Shanghai HKP and Shanghai ZY are indirect subsidiaries of Lai Fung. Shanghai Grand and Shanghai Central City are connected persons of Lai Fung by virtue of them each being a substantial shareholder of Shanghai Li Xing, Shanghai Lai Fung Dept. and Shanghai HKP, and also Shanghai Central City being a substantial shareholder of Shanghai ZY under the Listing Rules. Accordingly, the entering into the above agreements constituted connected transactions for Lai Fung and also for the Company and LSD by virtue of Lai Fung being a subsidiary of LSD, which in turn was a subsidiary of the Company, and required approval by the respective shareholders of the Company, LSD and Lai Fung.

The transactions were approved by the shareholders of the Company at the extraordinary general meeting held on 10th March, 2000, the Company and the Lim Family collectively being beneficial shareholder of more than 50% of the issued share capital of LSD issued their written confirmation to the Company in lieu of shareholders approval at a general meeting of LSD. LSD beneficially held a 74.49% shareholding in Lai Fung in turn issued its written confirmation to Lai Fung in lieu of shareholders approval at a general meeting of Lai Fung.

(3) On 14th March, 2000, the respective boards of directors of the Company, LSD and eSun jointly announced that on 10th March, 2000, Houseman International Limited (“Houseman”), which is owned in equal shares, by eSun Holdings Limited (“eSun”) and Lai Sun Development Company Limited (“LSD”), two former subsidiaries of the Group, entered into an agreement with Asia Television Limited (“ATV”) to acquire a 50% interest in the issued share capital of HKATV.com Limited (“HKATV.com”) for a total consideration of HK\$300 million comprising:

- (i) HK\$150,000,000 in cash; and
- (ii) 210,000,000 new ordinary shares of LSD with an ascribed issue price of approximately HK\$0.71 per share.

The consideration was negotiated with ATV by the directors of LSD and eSun.

The directors considered that the acquisition of HKATV.com will allow the Group to participate directly in ATV’s Internet activities. Such investment fits into the strategy of the Group to secure an Internet entertainment hub catered for the Chinese-speaking population globally.

As at 10th March, 2000, the Company, together with its associates, and Mr Lim Por Yen, Mr Lam Kin Ngok, Peter and Mr Lam Kin Ming and their respective associates (together, the “Lim Family”) beneficially owned approximately 50.66% of the issued share capital of LSD which, in turn, beneficially owned approximately 52.06% of the issued share capital of eSun. The Lim Family and LSD beneficially owned approximately 16.08% and 16.67%, respectively, of the issued share capital of ATV. Accordingly, the agreement and the transaction contemplated thereunder constituted a connected transaction for each of the Company, LSD and eSun as defined under the Listing Rules. The transaction was approved by the respective independent shareholders of each of the companies on 28th April, 2000.

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15. INTERESTS IN SUBSIDIARIES (continued)

After the issue of 210,000,000 new shares of LSD to ATV on 2nd May, 2000, the interest of the Company in LSD was diluted from 44.76% to 42.25%. As stated in note 1, the Group, together with the 5.57% interest in LSD (after dilution) directly owned by Lim Family, the Group did not have majority control of the composition of the board of directors of LSD. Accordingly, LSD is treated as an associate of the Group since 2nd May, 2000.

- (4) On 31st March, 2000, the Company entered into a loan agreement with Crocodile, pursuant to which, the Company agreed to advance HK\$16,400,000 to Crocodile as a deposit to the High Court for a litigation case. The advance is unsecured, interest-bearing with interest charged at a rate equal to the Hong Kong dollar three-month deposit rate plus 1% per annum, and was repayable within six months. The loan was extended for another six months to 31st March, 2001 pursuant to a supplement agreement entered into on 1st October, 2000.
- (5) The Company, LSD and Lai Fung jointly announced on 14th October, 1999 that Shanghai Li Xing Real Estate Development Company Limited (“Li Xing”), a subsidiary of Lai Fung, entered into a conditional loan agreement (the “Loan”) with the Bank of China (“BOC”) on 30th September, 1999, whereby BOC agreed to extend a loan of RMB80,000,000 to Li Xing for its repayment of bank borrowings and settlement of construction costs. The Loan was secured by the first four floors of the North Tower of Hong Kong Plaza.

BOC, being one of the principal banks of Lai Fung, was expected to continue to provide secured loan financing (“Financing Transaction”) and other financial and banking services (“Other Transactions”) to Lai Fung. Such transactions, if entered into, might constitute connected transactions for Lai Fung in accordance with the Listing Rules (by reasons detailed below), and may need certain prescribed disclosure and/or prior approval of the shareholders of the Company, Lai Fung and LSD.

On this basis, it was proposed that Lai Fung’s entering into any future Financing Transactions or Other Transactions with BOC which are expected to be entered into in the ordinary course of business of Lai Fung, to be subject to the following maximum limits:

- (a) the aggregate amount of all loans outstanding under any Financing Transactions not to exceed 70% of the consolidated net tangible assets of Lai Fung as published in its latest audited financial statements; and
- (b) the aggregate amount of all fees payable by Lai Fung in respect of any Other Transactions in any financial year of Lai Fung not to exceed 3% of the consolidated net tangible assets of Lai Fung as published in its latest audited financial statements.

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15. INTERESTS IN SUBSIDIARIES (continued)

At the time, Sun Chung Real Estate Company Limited (“Sun Chung”) held an option granted by LSD to purchase certain shares held by LSD in Lai Fung. Sunny Group Investment Limited (the “Sunny Group”) was the holder of a convertible note (note 30). Both Sun Chung and the Sunny Group were wholly-owned subsidiaries of BOC. In the opinion of the directors, the BOC Group was deemed to be a connected person of the Company, LSD and Lai Fung and hence the above two transactions constituted connected transactions of the Company, LSD and Lai Fung. Lai Fung had been granted a waiver by the Stock Exchange from the strict compliance with the requirements of Chapter 14 of the Listing Rules and the two transactions were approved by the respective independent shareholders of the Company, LSD and Lai Fung in their respective extraordinary meetings on 30th October, 1999. The following bank loans have also been granted by BOC:

(i) On 1st September, 1998, Guangzhou Grand Wealth Properties Limited (“GZ Grand Wealth”) entered into a loan agreement with BOC, whereby BOC agreed to extend a loan in an amount of RMB120,000,000 to GZ Grand Wealth for its settlement of construction costs. The loan bears interest at prevailing market rate and was secured by the completed properties developed for sale of Eastern Place Phase II. As at the balance sheet date, RMB30,000,000 of the loan was outstanding.

(ii) On 30th December, 1999, Lai Fung entered into a bridging loan agreement (“Bridging Loan Agreement”) with BOC, whereby BOC agreed to extend a bridging loan in an amount of HK\$50,000,000 to Lai Fung for its payment of interest for the Convertible Note. The bridging loan bore interest at prevailing market rate and was secured by 181 units of service apartments of Hong Kong Plaza.

(6) Pursuant to an agreement dated 27th August, 1999, Li Xing leased certain units of the North Tower of Hong Kong Plaza, a property situated in Shanghai, PRC, to BOC for a term of ten years commencing on 1st November, 1999 and expiring on 31st October, 2009. The rental was US\$19,503 per month and the service charge was initially US\$6,999 per month. The rental income would be increased by 10% in the fourth year and again in the seventh year of the tenancy or otherwise agreed between Li Xing and BOC.

The rental agreement was entered into based on negotiations between Lai Fung/Li Xing and BOC. The leased properties was used by BOC as office premises or business use.

The rental income received from BOC recognised by the Group during the year was approximately HK\$1,240,000.

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16. GOODWILL ON CONSOLIDATION OF SUBSIDIARIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of year	372,355	626,184
Adjustments for impairment	(125,000)	(216,200)
Release on disposal of a subsidiary	—	(37,629)
	<u>247,355</u>	<u>372,355</u>
Accumulated amortisation:		
At beginning of year	113,811	106,870
Charge for the year	5,178	10,159
Release on disposal of a subsidiary	—	(3,218)
	<u>118,989</u>	<u>113,811</u>
Net book value	<u>128,366</u>	<u>258,544</u>

17. DEFERRED PRE-OPERATING EXPENSES

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of year	51,743	67,578
Additions during the year	—	3,090
Written off during the year	(51,743)	(18,974)
Exchange realignments	—	49
	<u>—</u>	<u>51,743</u>
Accumulated amortisation:		
At beginning of year	41,025	35,322
Charge for the year	—	5,690
Written off during the year	(41,025)	—
Exchange realignments	—	13
	<u>—</u>	<u>41,025</u>
Net book value	<u>—</u>	<u>10,718</u>

Notes to Financial Statements

31st July, 2000

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Shares listed in Hong Kong, at cost	—	—	2,019,425	—
Share of net assets other than goodwill	2,654,296	67,750	—	—
Unamortised goodwill	—	25,650	—	—
	<u>2,654,296</u>	<u>93,400</u>	<u>2,019,425</u>	<u>—</u>
Amounts due from associates	5,569	1,479,292	2,385	2,037
Amounts due to associates	(2,551)	(104,814)	(2,263)	(2,009)
	<u>2,657,314</u>	<u>1,467,878</u>	<u>2,019,547</u>	<u>28</u>
Provisions for diminutions in values	(3,184)	(343,223)	—	—
	<u>2,654,130</u>	<u>1,124,655</u>	<u>2,019,547</u>	<u>28</u>
Market value of listed shares at balance sheet date	<u>372,781</u>	<u>—</u>	<u>372,781</u>	<u>—</u>

The balances due are unsecured, interest-free and have no fixed terms of repayment, except for amount aggregating HK\$1,500,000 (1999: HK\$377,168,000) due from an associate which bears interest at the prevailing market rates.

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Britol Holdings Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	21.33	Investment holding
Crocodile Development Limited	Corporate	Hong Kong	Ordinary Deferred	42.25	Property investment
Diamond String Limited	Corporate	Hong Kong	Ordinary	27.46	Hotel investment and restaurant operations

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31st July, 2000

18. INTERESTS IN ASSOCIATES (continued)

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited)	Corporate	Bermuda/ Hong Kong	Ordinary	21.33	Investment holding
Express.com Group Limited	Corporate	British Virgin Islands	Ordinary	21.33	Investment holding
Fordspace Development Limited	Corporate	Hong Kong	Ordinary	42.25	Investment holding
Furama Hotel Enterprises Limited	Corporate	Bermuda/ Hong Kong	Ordinary	42.25	Hotel operations
Gilroy Company Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Golden Decade Limited	Corporate	Hong Kong	Ordinary	20.11	Investment holding
Good Strategy Limited [#]	Corporate	British Virgin Islands/ Hong Kong	Ordinary	31.47	Investment holding
Guangzhou Jieli Real Estate Development Company Limited [#]	Corporate	People's Republic of China	*	31.47	Property development and investment
Guangzhou Gongbird Property Development Limited [#]	Corporate	People's Republic of China	*	31.47	Property development and investment

Notes to Financial Statements

31st July, 2000

18. INTERESTS IN ASSOCIATES (continued)

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Guangzhou Grand Wealth Properties Limited [#]	Corporate	People's Republic of China	*	31.47	Property development and investment
Heathfield Limited	Corporate	British Virgin Islands/ Canada	Ordinary	21.33	Hotel investment
Houseman International Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	21.33	Investment holding
Kolot Property Services Limited	Corporate	Hong Kong	Ordinary	42.25	Property management
Lai Fung Holdings Limited [#]	Corporate	Cayman Islands	Ordinary	31.47	Investment holding
Lai Fung Overseas Finance Limited [#]	Corporate	Cayman Islands	Ordinary	31.47	Bond issue
Lai Sun Development Company Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Lai Sun International Finance (Cayman Islands) Limited	Corporate	Cayman Islands	Ordinary	42.25	Bond issue
Lai Sun International Finance (1997) Limited	Corporate	Cayman Islands	Ordinary	42.25	Bond issue
Lai Sun Real Estate Agency Limited	Corporate	Hong Kong	Ordinary	42.25	Property management and real estate agency

Notes to Financial Statements

31st July, 2000

18. INTERESTS IN ASSOCIATES (continued)

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Lucky Strike Investment Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Lycon Investment Limited	Corporate	Hong Kong	Ordinary	42.25	Investment holding
Maxgear Investment Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Milirich Investment Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Peakflow Profits Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	42.25	Investment holding
Rich Internet Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	21.33	Investment holding
Shanghai Li Xing Real Estate Development Company Limited [#]	Corporate	People's Republic of China	*	28.32	Property investment
Shanghai Wa Yee Real Estate Development Co., Ltd. [#]	Corporate	People's Republic of China	*	29.90	Property development and investment
Sinoking Investment Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Smart Leader Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	42.25	Investment holding

Notes to Financial Statements

31st July, 2000

18. INTERESTS IN ASSOCIATES (continued)

Name of company	Business structure	Place of incorporation or registration/ place of operations	Class of shares held	Percentage of capital held	Principal activities
Sunlite Investment Limited [#]	Corporate	Hong Kong	Ordinary	31.47	Investment holding
Surearn Profits Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	42.25	Investment holding
Top Town Enterprises Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment
Transformation International Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	42.25	Investment holding
Vutana Trading Investment (No.2) Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	42.25	Investment holding
World Classic Development Limited	Corporate	Hong Kong	Ordinary	42.25	Property investment

[#] Audited by public accountants other than Ernst & Young.

* This company has no issued share capital. The Group's capital contributions and profit sharing ratios are not in proportion to its interest in this company but are as defined by mutual agreements among the owners.

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.

120,000,000 ordinary shares of LSD held by the Group have been pledged to banks to secure banking facilities granted to the Group.

In prior year, included in the balance of "Share of net assets other than goodwill" was interest capitalised of approximately HK\$134,083,000 on loans borrowed for investments in associates engaged in property development.

Notes to Financial Statements

31st July, 2000

18. INTERESTS IN ASSOCIATES (continued)

Included in the Group's share of the net assets of its associates is the share of net assets of LSD, a company listed on The Stock Exchange of Hong Kong Limited which, in the opinion of the directors, is material in the context of the Group's financial statements. Details of the net assets of LSD and its subsidiaries as at 31st July, 2000 and of its results for the year then ended, are as follows:

	HK\$'000
Fixed assets	1,371,567
Investment properties	9,478,130
Properties under development	3,571,007
Interests in associates	1,964,843
Interests in jointly controlled entities	50,127
Long term investments	1,018,910
Deferred tax assets	749
Current assets	2,044,096
Current liabilities	(3,633,586)
Long term liabilities	(6,249,444)
Minority interests	(3,233,971)
	<u>6,382,428</u>
Share of net assets, other than goodwill	<u>2,656,087</u>
Turnover	<u>4,659,663</u>
Loss before tax	(3,524,199)
Tax	<u>16,008</u>
Loss before minority interests	(3,508,191)
Minority interests	<u>750,209</u>
Net loss attributable to shareholders	<u>(2,757,982)</u>

The results of LSD for the period from 1st August, 1999 to 1st May, 2000 had been consolidated into the financial statements of the Group.

The net loss of LSD attributable to the Group subsequent to 1st May, 2000 had been accounted for using the equity method in the Group's financial statements as follows:

	HK\$'000
Share of loss of an associate	(249,081)
Share of tax credit	<u>15,075</u>
	<u>(234,006)</u>

Notes to Financial Statements

31st July, 2000

18. INTERESTS IN ASSOCIATES (continued)

The basic of presentation of the financial statements of LSD is set out below:

LSD sustained a net loss attributable to shareholders of HK\$2,758 million for the year ended 31st July, 2000 (1999: HK\$6,832 million). Although LSD sustained a further loss during the year, it was successful in reducing its losses substantially, and generated positive cashflows from its operating activities of HK\$369 million during the year (1999: outflows of HK\$384 million). Additionally, LSD recorded an improvement in its working capital position as compared to the previous year end. As at 31st July, 2000, LSD had consolidated net current liabilities of HK\$1,589 million (1999: HK\$2,563 million).

LSD reported in its annual report for the year ended 31st July, 1999 that it was planning to conduct meetings with the respective bondholders of the Exchangeable Bonds (note 31) and the Convertible Bonds 2002 (note 29) to obtain their agreement to the Principal Repayment Deferral, as defined below. LSD also reported that it was in discussions with its principal lending banks with a view to securing their support to defer repayment of certain bank loan principal that was outstanding as at 31st July, 1999 to 31st December, 2002 (the "Principal Repayment Deferral").

In the meetings of the Exchangeable Bondholders and Convertible Bondholders held on 4th August, 2000, as previously reported in various press announcements to LSD's shareholders during the year, the respective bondholders resolved to approve a restructuring proposal put forward by LSD Group, which included, among other things, the Principal Repayment Deferral, subject to certain conditions specified in such proposals. Also, during the year and up to the date of this report, LSD successfully obtained agreements from its principal lending banks to reschedule the principal repayments of the respective borrowings under their bilateral facilities.

As a result of the successful conclusion of the Principal Repayment Deferral, the LSD's bond and note payables and bank and other borrowings have been classified in accordance with the revised terms specified in the respective loan agreements and trust deeds as at 31st July, 2000.

In order to reduce the overall level of indebtedness, LSD implemented an aggressive asset disposal programme during the year ended 31st July, 2000. As a result, the LSD's total bank and other borrowings of HK\$5,525 million as at 31st July, 1999 (excluding the bank borrowings of the Lai Fung Holdings Limited group and the eSun Holdings Limited group, the two separately listed subgroups of LSD) were reduced to HK\$4,374 million as at 31st July, 2000. LSD will continue to execute an asset disposal programme with a view to generating cash proceeds to further reduce the LSD's indebtedness. On the basis that the asset disposal programme continues to be successful, the directors of LSD are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	—	145,333
Amounts due from jointly controlled entities	—	44,276
Amount due to a jointly controlled entity	—	(1,037)
	—	188,572

The balances with jointly controlled entities were unsecured, interest-free and have no fixed terms of repayment.

20. LONG TERM INVESTMENTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Listed investments in securities, at cost:		
Hong Kong	—	—
Elsewhere	—	5,000
Unlisted investments in securities, at cost	—	333,411
Advances	—	679,978
	—	1,018,389
Market value of listed investment at the balance sheet date	—	2,926

21. LONG TERM NOTE RECEIVABLE

Note receivable in prior year represented the net realisable value of a note due from the purchaser of a then subsidiary of the Group, Fortune Sign Venture Inc., which held the certain properties, namely the Majestic Hotel and the Majestic Centre.

Notes to Financial Statements

31st July, 2000

22. SHORT TERM INVESTMENTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Listed equity investments, at market value:		
Hong Kong	—	70,653
Elsewhere	—	3,099
	—	73,752
Less: Provisions for diminutions in values	—	(39,999)
	—	33,753
Unlisted equity investments, at fair value	—	26,102
Less: Provisions for diminutions in values	—	(16,268)
	—	9,834
	—	43,587
Market value of listed investments at the balance sheet date	—	34,646

23. COMPLETED PROPERTIES FOR SALE

Completed properties for sale which were carried at net realisable value and included in the prior year balance amounted to HK\$186,478,000.

24. INVENTORIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Raw materials	18,566	29,722	2,483	7,890
Work in progress	4,354	24,944	1,759	13,697
Finished goods	97,290	167,758	4,815	—
Goods in transit	—	143	—	—
	120,210	222,567	9,057	21,587

The carrying amounts of the Group's and the Company's inventories included in the above that are carried at net realisable value were HK\$34,828,000 (1999: HK\$105,846,000) and HK\$NIL (1999: HK\$21,587,000), respectively.

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25. TRADE RECEIVABLES AND BILL RECEIVABLES

The Group's average credit term to trade debtors is 120 days. The ageing analysis of trade receivables and bill receivables as at 31st July, 2000 is as follows:

	Group HK\$'000	Company HK\$'000
Current to 90 days	111,769	85,194
91 days to 180 days	11,075	8,320
181 days to 365 days	3,443	2,688
Over 365 days	49,391	48,216
	<u>175,678</u>	<u>144,418</u>

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and bank balances	60,076	438,501	7,077	10,939
Time deposits	76,620	385,722	76,620	13,522
	<u>136,696</u>	<u>824,223</u>	<u>83,697</u>	<u>24,461</u>

27. TRADE PAYABLES AND BILL PAYABLES

The ageing analysis of trade payables and bill payables at 31st July, 2000 is as follows:

	Group HK\$'000	Company HK\$'000
Current to 90 days	143,822	90,176
91 days to 180 days	8,979	7,214
181 days to 365 days	7,976	5,673
Over 365 days	50,801	49,273
	<u>211,578</u>	<u>152,336</u>