

# Notes to Financial Statements

31st July, 2000

## 1. CORPORATE INFORMATION

The Group concentrated on the manufacture and trading of garments, property development, property investment for investment potential purposes and investment holding subsequent to 1st May, 2000, following its deemed disposal of 2.51% of Lai Sun Development Company Limited (“LSD”), as detailed below.

The Group owned a 44.76% interest in LSD for the period from 1st August, 1999 to 1st May, 2000. Pursuant to a letter from Mr Lim Por Yen, Mr Lam Kin Ngok, Peter and Mr Lam Kin Ming and their respective associates (together, the “Lim Family”), who directly owned approximately 5.94% of the share capital of LSD at 31st July, 1999, the Lim Family agreed to vote unconditionally in favour of the Group in shareholders’ meetings of LSD concerning the composition of the board of directors of LSD. LSD was treated as a 44.76% subsidiary of the Group prior to 2nd May 2000 and its results were consolidated into the Group’s financial statements for that period.

On 2nd May, 2000, LSD issued 210 million new shares to acquire an interest in HKATV.com Limited as further detailed in note 15. As a result, the Group’s interest in LSD was diluted to 42.25%. Upon the dilution in the Group’s interest in LSD, the Group and the Lim Family together held less than a 50% interest of LSD, and accordingly, the Group no longer controlled the composition of the board of directors of LSD. LSD was then accounted for by the Group as an interest in an associate from 2nd May, 2000. Further details about the net asset value of LSD, its consolidated results for the year, and the basis of presentation thereof are included in note 18 to the financial statements.

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## 2. IMPACT OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new or revised SSAPs have been adopted for the first time in the preparation of the current year’s consolidated financial statements.

- SSAP 1 : Presentation of Financial Statements
- SSAP 2 : Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 10: Accounting for Investments in Associates
- SSAP 24: Accounting for Investments

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 31, 33, 34 and 37 respectively, have been revised in accordance with SSAP 1, and a consolidated statement of recognised gains and losses, not previously required, is included on page 32. Additional disclosures as required are included in the supporting notes to the financial statements. The effect on the adoption of SSAP 1 on the Group’s accounting policy for pre-operating expenses is further explained in the accounting policy in note 3.

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## 2. IMPACT OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of SSAP 2 on the preparation of these financial statements is that exceptional items, previously disclosed in aggregate on the face of the profit and loss account, are now disclosed separately on the face of the profit and loss account or by way of note (note 6 to the financial statements), and are no longer specifically referred to as “exceptional”.

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10, and accordingly has had no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

SSAP 24 prescribes the accounting treatment and disclosure for investments in debt and equity securities including, in certain circumstances, alternative accounting treatments. For these financial statements, as further explained in the accounting policy note below, long term investments in securities are stated at cost less provisions for impairment in values, other than those considered to be temporary in nature, as determined by the directors. Short term investments in securities are stated at their fair values, with differences in valuation being charged or credited to the profit and loss account. There are no prior period adjustments arising from the adoption of SSAP 24 in these financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries and associates for the year ended 31st July, 2000, except for eSun Holdings Limited (“eSun”) (formerly known as Lai Sun Hotels International Limited) and Furama Hotel Enterprises Limited (“Furama”). eSun and Furama prepared their statutory financial statements based on the financial years ending 31st December and 31st March, respectively, and therefore, their management accounts for the period ended 1st May, 2000, after appropriate adjustments, were included in the preparation of these consolidated financial statements. 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.

# Notes to Financial Statements

31st July, 2000

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

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

### Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of 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 investments 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 provisions for permanent diminutions in values deemed necessary by the directors, other than goodwill which is recorded in the associates' own financial statements, plus goodwill arising on the acquisition of interests in the associates in so far as it has not already been written off or amortised.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The interests in associates in the Company's balance sheet are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to the directors' valuations.

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

### Jointly controlled entities

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other form of entity in which each venturer has an interest. A jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activities of the entity.

The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratios are different from the Group's equity interests therein, the share of post-acquisition results of the jointly controlled entities is determined based on the agreed profit sharing ratios. The Group's interests in jointly controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

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

# Notes to Financial Statements

31st July, 2000

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

### Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess of the purchase consideration paid for the subsidiaries/associates over the fair values ascribed to the net underlying assets acquired at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries is eliminated against reserves at the time of acquisition. Goodwill arising on the acquisition of a subsidiary, Crocodile Garments Limited, is amortised on the straight-line basis over a period of sixty years. Goodwill arising on the acquisition of the other associates is amortised on the straight-line basis over a period of forty years. Such goodwill is stated at amortised balance adjusted for permanent impairments in values considered necessary by the directors.

### Capital reserve

The capital reserve arising on consolidation of subsidiaries and on the acquisition of associates represents the excess of the fair values ascribed to the net underlying assets of the subsidiaries/associates acquired at the date of acquisition over the purchase consideration paid for the subsidiaries/associates.

### Fixed assets and depreciation

No depreciation is provided for freehold land, hotels and investment properties. Other fixed assets are stated at cost or valuation less accumulated depreciation.

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 the asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation 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	2.0% – 5%
Leasehold improvements	2.5% – 20%
Plant and machinery	10.0%
Furniture, fixtures and equipment	5.0% – 20%
Motor vehicles	10.0% – 25%
Computers	10.0% – 25%
Motor vessels	25.0%

# Notes to Financial Statements

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

### Fixed assets and depreciation (continued)

The transitional provisions set out in paragraph 72 of SSAP 17 "Property, plant and equipment" have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements in periods ended before 30th September, 1995 have not been further revalued to fair value at subsequent balance sheet dates. It is the directors' intention not to revalue these assets in the future.

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

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of recoverable amounts are charged to the profit and loss account.

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### 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. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. 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.

Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

### Properties under development

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

# Notes to Financial Statements

31st July, 2000

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

### Properties under development (continued)

Changes in the values of properties under development which have been revalued are dealt with as movements in the revaluation reserve for properties under development held for investment potential. If this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. On completion, the properties are transferred to investment properties.

Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Properties under development held for reasons other than their investment potential are stated at cost less any provisions for permanent diminutions in values considered necessary by the directors. Cost includes the cost of land, construction, financing and other related expenses.

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

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

### 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.

### Deferred pre-operating expenses

Deferred pre-operating expenses represent expenses incurred prior to the commencement of operations of certain subsidiaries and are recognised as expenses in the period in which they are incurred. In prior years, pre-operating expenses were capitalised at cost and amortised on the straight-line basis over a period of three to five years from the date of commencement of the operations of the relevant subsidiaries. The change in accounting policy has resulted from the adoption of the revised SSAP 1. The change in accounting policy resulted in the write-off of pre-operating expense of approximately HK\$10,718,000 to the profit and loss account for the year ended 31st July, 2000. There was no prior year adjustment made as a result of the adoption of SSAP 1 in these financial statements because the effect thereof was immaterial.

# Notes to Financial Statements

31st July, 2000

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

### Long term investments

Long term investments comprise investments in listed and unlisted equity and debt securities intended to be held for an identified long term purpose. Long term investments are stated at cost less provisions for impairments in values, other than those considered to be temporary in nature, as determined by the directors.

Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment in value previously charged to the profit and loss account is written back to the extent of the amount previously charged.

### Short term investments

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

### Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost for food, beverages, cutlery, linen and supplies used in hotel and restaurant operations and raw materials, work in progress and finished goods for the manufacture and sale of garments is determined on the first-in, first-out basis. In the case of work in progress and finished goods, cost includes direct materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### Textile quota entitlements

The Group is entitled to certain textile quotas. Temporary textile quota entitlements purchased from outside parties are written off to the profit and loss account at the time of utilisation, or in the absence of such utilisation, upon the expiry of the relevant utilisation period. The profit on the transfer of temporary textile quota entitlements to a third party is recognised upon the execution of a legally binding, unconditional and irrevocable transfer form.

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

# Notes to Financial Statements

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

### Leased assets (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the profit and loss account on the straight-line basis over the lease terms.

### Revenue recognition

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

- (a) sale of goods and transfer of quotas, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) sale of completed properties developed for sale, upon the establishment of a binding contract in respect of the sale of properties, or upon the issue of an occupation permit by the Hong Kong Government or a completion certificate by the relevant government authorities, whichever is the later;
- (c) income from pre-sale of certain properties under development, when the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, and on the basis set out under the heading "Properties under development" above;
- (d) 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;
- (e) 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;
- (f) hotel and restaurant operations and other related service income, in the period in which such services are rendered;
- (g) dealing in securities and sale of investments, on the transaction date when the relevant contract is entered into;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (i) dividend income, when the shareholders' right to receive payment is established.

### Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation rate for the year is based on the weighted average of the attributable borrowing costs of the borrowings. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.



# Notes to Financial Statements

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

### Pension costs

The Group operates defined contribution pension schemes and defined benefits retirement schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds.

Contributions to the defined contribution pension schemes are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. When an employee leaves the scheme prior to his/her interest in the Group employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

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

### Foreign currencies

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

On consolidation, the financial statements of subsidiaries, associates and jointly controlled entities outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### 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.

### Cash equivalents

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

# Notes to Financial Statements

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## 4. RELATED PARTY TRANSACTIONS

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest income received from associates	<u>51,356</u>	<u>66,892</u>

Interest income received from associates arose from advances thereto. Interest was charged at the prevailing market rates.

## 5. TURNOVER

Turnover comprises the net invoiced value of garments sold, commission and handling charges earned, proceeds from the sales of quotas, proceeds from the sales of properties, rental income and income from hotel, restaurant and other operations. Revenue from the following activities has been included in turnover.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Sales of garments and quotas	1,556,083	1,434,242
Sales of properties	524,993	552,318
Property rentals	456,149	636,076
Hotel, restaurant and other operations	<u>429,659</u>	<u>557,874</u>
	<u>2,966,884</u>	<u>3,180,510</u>

# Notes to Financial Statements

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## 6. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Group	
	2000 HK\$'000	1999 HK\$'000
Auditors' remuneration	5,287	6,793
Depreciation:		
Owned fixed assets	49,623	93,399
Leased fixed assets	131	495
Staff costs:		
Wages and salaries (including directors' remuneration — see note 8)	327,397	523,274
Pension contributions	6,827	8,053
Less: Forfeited contributions	(745)	(1,858)
Net pension contributions*	<u>6,082</u>	<u>6,195</u>
Amortisation of goodwill on acquisition of:		
Subsidiaries	5,178	10,159
Associates	892	1,396
Amortisation of deferred pre-operating expenses	—	5,690
Adjustment for impairment in values of goodwill in an associate	24,167	—
Write off of deferred pre-operating expenses	10,718	18,974
Loss on disposal of fixed assets	5,442	162,113
Loss on disposal of properties under development	96	158,153
Loss on disposal of investment properties	104,010	153,940
Loss on dissolution of associates	—	1,808
Loss on disposal of long term unlisted investments	—	431
Loss on disposal of short term unlisted investments	—	112,375
Loss on disposal of short term listed investments	—	10,527
Provisions for diminutions in values of, and advances to, associates and investee companies engaged in hotel operations	22,500	42,487
Provisions for impairments in values of short term listed and unlisted investments	—	2,514
Operating lease rentals in respect of land and buildings	118,466	152,796
Foreign exchange losses, net	<u>4,415</u>	<u>13,697</u>