



LAI SUN DEVELOPMENT

Lai Sun Development Company Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 488)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST JULY, 2004

RESULTS

The Board of Directors of Lai Sun Development Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st July, 2004 as follows:

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
TURNOVER	3	2,109,513	906,590
Cost of sales		<u>(1,890,206)</u>	<u>(396,789)</u>
Gross profit		219,307	509,801
Other revenue		19,219	67,815
Administrative expenses		(288,764)	(275,467)
Other operating income/(expenses), net		(10,285)	17,842
Reversal of impairment of fixed assets		76,484	—
Release of negative goodwill upon disposal of an investment property		149,983	—
Reversal of/(provision for) impairment of long term unlisted investments		33,772	(7,772)
Gain on disposal of subsidiaries		62,305	19,230
PROFIT FROM OPERATING ACTIVITIES	4	262,021	331,449
Finance costs	5	(351,362)	(473,255)
Share of profits and losses of associates		6,596	(5,745)
Amortisation of goodwill on acquisition of an associate		—	(26,545)
Reversal of/(provision for) impairment of associates		23,181	(36,804)
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)
LOSS BEFORE TAX		(59,564)	(404,488)
Tax	6	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)
LOSS PER SHARE	7		
Basic		(HK\$0.01)	(HK\$0.13)
Diluted		N/A	N/A

Consolidated Balance Sheet 31st July, 2004

	Note	2004 HK\$'000	2003 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets		1,351,063	1,837,653
Investment properties		3,207,980	4,503,410
Properties under development		1,424	1,400
Goodwill		8,583	—
Interests in associates		1,153,326	966,080
Long term investments	8	280,963	357,791
Pension scheme assets		—	18,298
		6,003,339	7,684,632
CURRENT ASSETS			
Short term investments		6,506	7,370
Completed properties for sale		1,430	5,246
Inventories		6,995	7,502
Debtors and deposits		123,717	135,185
Pledged bank balances and time deposits		97,657	120,390
Cash and cash equivalents		530,446	110,927
		766,751	386,620
CURRENT LIABILITIES			
Creditors, deposits received and accruals		453,749	308,671
Tax payable		11,668	107,392
Interest-bearing bank and other borrowings		2,291,733	3,956,832
Provision for premium on bonds redemption		612,390	612,390
Provision for premium on loan repayment		32,396	26,875
Bonds payable		621,671	621,671
Convertible bonds payable		906,750	906,750
Amount due to an associate		1,500,040	1,500,040
		6,430,397	8,040,621
NET CURRENT LIABILITIES		(5,663,646)	(7,654,001)
TOTAL ASSETS LESS CURRENT LIABILITIES		339,693	30,631
NON-CURRENT LIABILITIES			
Deferred tax		(34,149)	(53,177)
Long term rental deposits received		(29,122)	(40,294)
		(63,271)	(93,471)
		276,422	(62,840)
CAPITAL AND RESERVES			
Issued capital		1,873,001	1,873,001
Reserves		(1,989,112)	(2,291,318)
		(116,111)	(418,317)
MINORITY INTERESTS		392,533	355,477
		276,422	(62,840)

Consolidated Statement of Changes in Equity Year ended 31st July, 2004

	Issued capital HK\$'000	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 2002							
As previously reported	1,873,001	5,858,164	1,927,110	1,200,000	60,282	(10,138,207)	780,350
Prior year adjustment:							
SSAP 12 — restatement of deferred tax	—	—	—	—	—	(28,635)	(28,635)
As restated	1,873,001	5,858,164	1,927,110	1,200,000	60,282	(10,166,842)	751,715
Deficit on revaluation of investment properties	—	—	(680,752)	—	—	—	(680,752)
Exchange realignments:							
Subsidiaries	—	—	—	—	57	—	57
Associates	—	—	—	—	(972)	—	(972)
Net losses not recognised in the profit and loss account	—	—	(680,752)	—	(915)	—	(681,667)
Release upon disposal of subsidiaries	—	—	—	—	(2,305)	—	(2,305)
Release upon deemed disposal of an associate	—	—	—	—	(9,494)	—	(9,494)
Net loss for the year (as restated)	—	—	—	—	—	(476,566)	(476,566)
At 31st July, 2003 and 1st August, 2003 (as restated)	1,873,001	5,858,164*	1,246,358*	1,200,000*	47,568*	(10,643,408)*	(418,317)
At 31st July, 2003 and 1st August, 2003							
As previously reported	1,873,001	5,858,164	1,246,358	1,200,000	47,568	(10,599,247)	(374,156)
Prior year adjustment:							
SSAP 12 — restatement of deferred tax	—	—	—	—	—	(44,161)	(44,161)
As restated	1,873,001	5,858,164	1,246,358	1,200,000	47,568	(10,643,408)	(418,317)
Surplus on revaluation of investment properties	—	—	258,779	—	—	—	258,779
Exchange realignments:							
Subsidiaries	—	—	—	—	(9)	—	(9)
Associates	—	—	—	—	60	—	60
Net gains not recognised in the profit and loss account	—	—	258,779	—	51	—	258,830
Release upon disposal of subsidiaries	—	—	(28,640)	—	—	—	(28,640)
Release upon disposal of investment properties	—	—	261,312	—	—	(149,983)	111,329
Net loss for the year	—	—	—	—	—	(39,313)	(39,313)
At 31st July, 2004	1,873,001	5,858,164*	1,737,809*	1,200,000*	47,619*	(10,832,704)*	(116,111)

* These reserve accounts comprise consolidated reserves of debit balance of HK\$1,989,112,000 (2003: HK\$2,291,318,000 (as restated)) in the consolidated balance sheet.

Notes:

1. 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. 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.

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.

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 ("FHFL") 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.

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 independent shareholders of the Company.

On 18th October, 2004, upon fulfillment of certain specified conditions, cash repayments of HK\$20 million and approximately 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;
- (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 the 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. 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 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.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP") AND A NEW INTERPRETATION

The revised SSAP 12 "Income taxes" ("SSAP 12 (Revised)") and the new Interpretation 20 "Income taxes — Recovery of revalued non-depreciable assets" are effective for the first time for the current year's financial statements and have had a significant impact thereon.

SSAP 12 (Revised) 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 carry forward of unused tax losses (deferred tax).

SSAP 12 (Revised) was adopted during the year. This caused a change in accounting policy which has resulted in an increase in the Group's deferred tax liability 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 increased 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.

3. SEGMENTAL INFORMATION

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

(a) 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
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)
Other segment information:												
Depreciation	—	—	—	—	25,980	21,692	80	575	—	—	26,060	22,267
Depreciation — unallocated											8,957	7,852
											35,017	30,119
(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	—
Amortisation of goodwill on acquisition of a subsidiary	—	—	—	—	—	—	1,717	—	—	—	1,717	—
Release of negative goodwill upon disposal of an investment property	—	—	(149,983)	—	—	—	—	—	—	—	(149,983)	—

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

(b) 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

4. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	35,017	30,119
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	—
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)
Gain on repurchase of bonds payable	—	(9,041)
Gain on disposal of a short term investment	—	(34)
Unrealised gain of short term investments	—	(438)

5. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	124,074	215,357
Interest on an amount due to an associate	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	5,521	21,042
Bank charges and refinancing charges	52,335	43,711
	351,362	473,255

6. 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
Provision for tax for the year:		
Hong Kong	16,463	31,027
Outside Hong Kong	—	6
Deferred tax	(3,740)	16,570
Total	12,723	47,603
Prior year 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

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the 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.

8. INTEREST IN ASSOCIATES

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 and the Convertible Bonds 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 1 of this announcement 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 1 of this announcement.

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.

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:

- 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;
- 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
- 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.

9. POST BALANCE SHEET EVENTS

Further details of the subsequent development on the Settlements are set out in note 1 of this announcement.

10. COMPARATIVE AMOUNTS

As further explained in note 2 of this announcement, due to the adoption of the SSAP 12 (Revised) 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.

SUMMARY OF AUDITORS' REPORT

Scope limitations — Interest in an associate, eSun Holdings Limited ("eSun") and its subsidiaries (the "eSun Group")

Included in the Group's interests in associates as at 31st July, 2004 is the Group's share of net assets of the eSun Group of HK\$793,145,000. As further detailed in note 8 to this announcement, the auditors of eSun issued a disclaimer opinion on the financial statements of the eSun Group for the year ended 31st December, 2003 because of (a) the possible effects of scope limitations in respect of (i) the recoverability of HK\$1,500,040,000 due by the Group to the eSun Group (the "Debt") and (ii) the impairment of film rights owned by the eSun Group with a carrying amount of HK\$197,655,000; and (b) the fundamental uncertainty relating to the going concern basis.

The auditors considered that they have been unable either to obtain sufficient reliable information and explanation or to carry out any alternative audit procedures to satisfy themselves as to the value of the Group's share of net assets of the eSun Group included in the consolidated balance sheet as at 31st July, 2004.

Included in the Company's balance sheet as at 31st July, 2004 is its 37.86% interest in eSun of HK\$896,277,000 and the Company's interests in subsidiaries, which in turn held a 4.68% interest in eSun, with an aggregate carrying value of HK\$170,806,000. The auditors also considered that they have

been unable either to obtain sufficient reliable information and explanation, or to carry out alternative audit procedures to satisfy themselves as to the carrying value of the Company's interests in eSun and in these subsidiaries as at 31st July, 2004.

Any adjustments that might have been found necessary in respect of the above scope limitations would have a consequential impact on the deficiency in assets of the Group and the Company as at 31st July, 2004 and the net loss attributable to the shareholders for the year then ended.

In forming their opinion the auditors also evaluated the overall adequacy of the presentation of information in the financial statements. The auditors believe that their audit provides a reasonable basis for their opinion.

Fundamental uncertainty relating to the going concern basis

In forming their opinion, the auditors have considered the adequacy of the disclosures made in note 1 to this announcement which explain the circumstances giving rise to concerns regarding the fundamental uncertainty relating to (1) the successful implementation of the debt settlement arrangements agreed by the Company with each of eSun and the holders of the Exchangeable Bonds and the Convertible Bonds (the "Settlements") and (2) the successful refinancing of the Group's short-term bank and other borrowings to longer term financing (the "Long-term Financing"). These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Settlements and securing the Long-term Financing. These financial statements do not include any adjustments that may be necessary if the Company fails to successfully implement the Settlements and secure the Long-term Financing. The auditors consider that appropriate disclosures have been made and their opinion is not qualified in this respect.

Disclaimer of opinion

Because of the significance of the possible effects of the scope limitations in evidence available to them as mentioned in the above, the auditors are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31st July, 2004 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the scope limitations on their work relating to the carrying value of eSun, the auditors have not obtained all the information and explanations that they considered necessary for the purpose of their audit.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group recorded a consolidated net attributable loss of HK\$39 million for the year ended 31st July, 2004 (2003 (as restated): loss of HK\$477 million). Basic loss per share was HK\$0.01 (2003 (as restated): HK\$0.13)

The operating environment for the year under review showed a considerable improvement from the previous period. With the absence of SARS' recurrence together with the continued uptick in both consumption and investment sentiments, the real estate market have exhibited the strongest rebound since 1997, with the ascent of prices evident across all sectors. Meanwhile, the territory has also lately recorded, its first, albeit mild inflation after suffering from more than five years of continued deflationary pressure. On the operating level, while the Group suffered a loss in the sale of Causeway Bay Plaza 1, this was largely compensated by the write-back of impairment in value of properties. Meanwhile, the Group also registered a tax write-back (for prior years' provision) of HK\$88.6 million which alleviated the negative impact from the still high interest and financial expenses for the year.

Dividends

The Directors do not recommend payment of a dividend for the current financial year.

Business Review

Hong Kong remains a place of volatility and thus opportunities. In our last annual report we highlighted the turnaround of the domestic economy, being fuelled by China's economic support through the signing of CEPA and relaxing restriction on mainland visitors to Hong Kong. This China factor continued to serve as the major impetus behind the domestic economic revival during the period under review. Consequently, the local unemployment rate has now fallen to 6.8%, as compared to an all-time high of 8.7%, while the prolonged deflationary pressure finally gave way to a mild and welcome inflation lately. Such broad-based recovery has spurred confidence of both corporations and individuals, and has in turn uplifted investment and consumption enthusiasm.

Being a natural beneficiary of this favourable development, the overall property market exhibited a strong turnaround during the period under review. In particular, prices for luxury residential properties are in general estimated to have risen by more than 50% as compared to the same period last year, while mass residential prices have also increased by over 30% on the same basis of comparison. Meanwhile, Grade A office rentals have also shown strong signs of recovery, registering an average year-on-year gain of around 25%.

Such property market recovery has undoubtedly made a positive impact on the Group's results. While the disposal of Causeway Bay Plaza 1 has incurred a HK\$273 million loss during the period, this was partially compensated by a release of negative goodwill attributable to Causeway Bay Plaza 1 of HK\$150 million to the profit and loss account, and a HK\$61 million gain resulted from the disposal of the Group's 50% interest in the Majestic Hotel and Centre. Further, in tandem with the ongoing appreciation in property prices, the Group have written back approximately HK\$133 million to reflect the prevailing value of both properties under development and existing hotel properties under the Group. Nonetheless, heavy financial expenses remained an active feature that depressed the results, while the Group continued to share a small HK\$12 million loss from its 42.54%-owned associate eSun Holdings Limited.

Thanks to the continued low interest rates and further asset disposals, the Group managed to reduce its overall interest expenses by 20%. Notwithstanding, the extent of improvement remained insufficient to support the Group's operational activities and to repay debt. As of 31st July, 2004, while total bank and other debt of the Group have reduced to HK\$2,324 million, total borrowings continued to stay a high of HK\$5,965 million (2003: HK\$7,625 million) after taking into account bond debt of HK\$2,141 million (including accrued premium) and an intercompany debt owed to eSun in the amount of HK\$1,500 million. Since late 2002, the Group has therefore embarked on a corporate restructuring program with an ultimate objective of achieving a settlement plan with all creditors, improving its free cash flow position, and bringing the Group back to positive net asset territory. The Board is extremely pleased to inform shareholders that this exercise is nearing completion. More details will be divulged in the section under "Group Restructuring".

Property Investment

The Group's investment property portfolio generated gross rental income of HK\$280 million for the year, representing a substantial drop of 28% from the previous year. The marked decrease was largely due to the absence of contributions from both the Lai Sun Yuen Long Centre and the Causeway Bay Plaza 1 which were sold in August 2003 and October 2003 respectively. However, overall unit rentals have shown reasonable improvement, a reversionary trend which is expected to continue. Given the superior locations of the Group's investment properties, the overall vacancy continued to stay at a respectable 10%.

Property Sales

In harmony with the Group's restructuring program, the year under review witnessed two strategic property disposals intended to facilitate the plan. As mentioned earlier, the Group successfully disposed of Causeway Bay Plaza 1 to The Wing On Property and Securities Company Limited for a total consideration of HK\$1,200 million; the transaction was unanimously approved by shareholders on 29th September, 2003 and was completed on 23rd October, 2003. On 6th May, 2004, the Group achieved the sale of a 50% interest in the Majestic Hotel and Centre to an independent third party for a gross consideration of HK\$435 million, and the transaction was completed on 31st July, 2004. The twin disposals, which took off over HK\$1.2 billion bank debt from the balance sheet, were indicative of the Group's continued commitment to improve its financial position. In addition, they also helped equip the Company with the necessary cash resources to negotiate and finalize a consensual agreement with the creditors.

Hotels

In contrast to the same period last year which was heavily plagued by SARS, the hotel sector made a formidable recovery in the period under review. For the seven months ended July 2003, the Group's 65%-owned The Ritz-Carlton, Hong Kong achieved an average occupancy of 80.2% and an average room rate of HK\$1,677, as compared to 45.6% and HK\$1,520 recorded in the previous period. For the Majestic Hotel, the corresponding figures were 90.6% and HK\$433 respectively.

Meanwhile, performance of the Group's hotel operations in Vietnam continued to be hampered by the bird flu epidemic which naturally led to stagnant tourist volume during the same period. Notwithstanding, the Group's two hotels, namely the Caravelle Hotel situated at Ho Chi Minh City (26.01% interest) and the Furama Resort Danang (62.625% interest) still managed to provide positive contributions to the Group.

eSun Holdings Limited

eSun Holdings Limited ("eSun") reported a net attributable loss of HK\$33 million for the six months ended June 2004. It is gratifying to see further reduced losses from East Asia Satellite Television Limited ("EAST"), and positive contributions from Media Asia Holdings Limited, a 49.77% associate of eSun. However, the continued informal standstill of the Group which involved a suspension in interest payment by Furama Hotel Enterprises Limited on approximately HK\$1,500 million debt due to eSun, had made an adverse impact on the bottomline of the latter.

Prospects

We are sanguine over the short-to-medium prospects of the domestic economy. The prevailing environment continues to be well buttressed by the China factor and improved inflation-employment balance. For the China factor, apart from the unique privileges deriving from CEPA and the influx of PRC tourists, the positive investment outlook over China will also lead to favourable capital flow into Hong Kong, being undoubtedly the best fund raising platform for PRC enterprises. Meanwhile, brisk demand for land supply in consequence to the property market upswing, should significantly lighten the deficit burden of the Hong Kong Government.

For the year 2004/2005, the Group will earmark the following projects for sale with details as follow:

Location	Type	Group Interest	Attributable GFA (sq.ft.)
Rolling Hills (Phase 2) DD105, Ngau Tam Mei Yuen Long	Residential	50%	38,010
Kimberley 26 26 Kimberley Road Tsimshatsui, Kowloon	Service Apartment Commercial	50%	41,570 15,238
			56,808

On the property investment front, as demand looks poised to outstrip supply, we believe that rentals should be able to register further increase in the coming months. As such, positive rental reversions should be evident in respect of the Group's core investment properties. Meanwhile, the Group's rental income should see further improvement by late 2005 when the expected completion of the AIG Tower (in which the Group retains a 10% interest) would provide fresh contribution to the Group.

Prospects of the overall hotel industry will continue to be promising, with both occupancy and room rates likely to show reasonable improvement. The Ritz-Carlton, Hong Kong should be a major beneficiary of this evolving trend, while the Majestic Hotel should also turn in better performance although competition in the three-star segment will remain very intense. Meanwhile, the Group will devote substantial effort to market and expand the business of Furama Hotel and Resorts International Limited, whose 'Furama' brandname together with its competent management team should enable it to secure more hotel and service apartment management contracts in Asia, with a notable emphasis on Hong Kong and China.

The Group is optimistic of the prospects of eSun Holdings Limited ("eSun"). At the time of writing, Media Asia Holdings Limited (MAH) has successfully obtained a listing on the SGX-SESDAQ of the Singapore Stock Exchange with an offering market capitalization of approximately HK\$280 million. Following this flotation, eSun's shareholding in MAH will be diluted to approximately 37.3%. The move demonstrates eSun's capability to transform MAH into a profitable entity with strong critical mass in the film production and distribution industry. Looking ahead, the prospects of MAH are bright given an improved consumer sentiment as well as the onset of CEPA which relaxes the quota for locally produced films. Meanwhile, wholly-owned subsidiary East Asia Entertainment Limited will continue to be active in the concert production arena; in the second half of 2004, it has already profitably participated in the performances of several top-tier local artistes such as Andy Lau, Sammi Cheng and Sam Hui.

While still awaiting for relevant PRC authorities' approval for a satellite television downlink license, EAST stands to benefit, as a content provider, from the growing number of new players in the Pay TV market. Finally, together with EAST, eSun is actively evaluating development plan alternatives for the EAST Television City, with an objective of adopting a plan which will nicely capitalize on the evolving trends of the Macau economy. We are confident that such changes will be able to be approved and be implemented, which in turn should bring in substantial benefit to the Group, being the largest shareholder of eSun.

Group Restructuring

The Group has been negotiating with all creditors since late 2002 with a view to achieve a consensual debt restructuring agreement as soon as practicable. Substantial headway have been made since early 2004, and on 28th June, 2004, the Group entered into a settlement agreement with eSun and reached an in-principle agreement with the Informal Committee (representing holders of the Convertible Bonds and Exchangeable Bonds) in respect of the total indebtedness owed to eSun and the Convertible and Exchangeable Bondholders (collectively "the Bondholders") respectively. The principal terms of the proposed settlement comprise of the following:

For eSun

HK\$20 million cash repayment
A new five-year interest bearing secured term loan of HK\$225 million, and
5,200 million new Lai Sun Development shares

For the Bondholders

Approximately HK\$300 million cash repayment
Issue of a zero-coupon, secured 'A' Bond due 31st December, 2005 in the amount of HK\$266 million, and
3,800 million new Lai Sun Development shares (with two put options having been granted to the Bondholders by Mr. Lam Kin Ngok, Peter).

Following completion of the restructuring, eSun will become the largest shareholder of the Group with an interest of approximately 40.8%. Meanwhile, the 'A' Bond will, amongst others, be secured by and repaid via the disposals of three property interests of the Group, namely the Caravelle Hotel (26.01%), the Furama Resort Danang (62.625%) and the remaining units in the Waterfront (10%).

The proposed settlement plan was duly approved by both the Convertible Bondholders and the Exchangeable Bondholders on 6th October, 2004, while independent shareholders of eSun and the Group have also approved the plan on 13th October, 2004. It is expected that final completion will take place no later than the end of 2004.

Success in finalizing this restructuring exercise certainly opens a new chapter for the Group. It will see the retirement of approximately HK\$3,700 million debt owed to eSun and the Bondholders, while it enables the Group to retain certain core properties, notably including the Cheung Sha Wan Plaza, the Causeway Bay Plaza 2 and the Ritz Carlton Hotel.

While we would like to remind shareholders that there will be, upon completion, a one-off pro-forma accounting loss of approximately HK\$1,704 million (subject to change), mainly arising from the creation of a settlement premium to facilitate the issue of shares at par value (of HK\$0.50) to the creditors, such loss will be comfortably absorbed by enlargement of the equity base through the issue of new shares for

cancellation of debt, and that the Group will return to positive net asset territory with a pro-forma NAV estimated at approximately HK\$2,273 million, or HK\$0.18 per share. (For more details in respect of the above please refer to Appendix II of the Group's circular to shareholders dated 15th September, 2004).

Liquidity and Financial Resources

As at 31st July, 2004, the Group had outstanding borrowings of approximately HK\$5,965 million (2003: HK\$7,625 million) comprising (i) secured bank loans 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 of HK\$622 million and accrued bond redemption premium of HK\$259 million) and (iv) an outstanding amount of approximately HK\$1,260 million payable under the Convertible Bonds (principal of HK\$907 million and accrued bond redemption premium of HK\$353 million) and (v) an amount due to the eSun Group of approximately HK\$1,500 million. Consolidated net deficiency in assets of the Group as at the same date was HK\$116 million (as at 31st July, 2003 (as restated): HK\$418 million). As a result of the cross defaults triggered by the defaults in the repayment of the Bonds and the eSun Debt, the Group was in technical default of all bank and other borrowings. 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. All principal banks had showed their intention to provide continued financial support to the Group by continuously granting short-term extension to the loan repayment dates as necessary pending outcome of the Settlements. All of the bank and other borrowings of HK\$2,292 million as at 31st July, 2004 were repayable within 1 year in accordance with the original repayment terms. 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. All principal bank creditors have indicated that it would be their intention to proceed with refinancing of the outstanding loan facilities following the completion of the Settlements.

As at 31st July, 2004, certain investment properties with carrying amounts of approximately HK\$3,198 million, certain fixed assets with carrying amounts of approximately HK\$965 million and certain bank balances and time deposits with banks of approximately HK\$90 million were pledged to banks to secure banking facilities granted to the Group. At the same date, certain investment properties with carrying amounts of approximately HK\$3 million, certain fixed assets with carrying amounts of approximately HK\$25 million and a time deposit with a bank of approximately HK\$8 million were pledged to the bank to back up 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. In addition, 285,512,791 ordinary shares of eSun, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower project, and certain shares in other subsidiaries held by the Group were also pledged to banks and other lenders to secure loan facilities granted to the Group. Certain shares of associates held by the Group were pledged to banks for loan facilities granted to certain associates of the Group. In addition, pursuant to the terms and conditions of the Exchangeable Bonds and the Convertible Bonds, the Exchangeable Bondholders share on a pari passu and pro rata basis with the Convertible Bondholders the security charge over a second charge over 285,512,791 shares of eSun beneficially owned by the Group. The Exchangeable Bondholders also share on a pari passu and pro rata basis with the Convertible Bondholders and eSun the security of a limited recourse second charge over 6,500 shares of Diamond String Limited (which owns The Ritz-Carlton, Hong Kong) beneficially owned by the Company. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

At the meetings of the holders of the Exchangeable Bonds (the "Exchangeable Bondholders") and the holder of the Convertible Bonds (the "Convertible Bondholders") held on 6th October, 2004, the necessary resolutions to approve the settlement of the outstanding indebtedness due to the Exchangeable Bondholders and the Convertible Bondholders (the "Bonds Settlement") were passed by the Exchangeable Bondholders and Convertible Bondholders. At the extraordinary general meeting of shareholders of the Company held on 13th October, 2004, the resolutions to approve, inter alia, the Bonds Settlement and completion of the agreement dated 28th June, 2004 made between the Company, eSun, FHEL and GPEL relating to the settlement of the outstanding principal indebtedness of approximately HK\$1,500 million owed by FHEL, and guaranteed by the Company, to GPEL as amended and supplemented by a supplemental agreement dated 31st August, 2004 (the "eSun Settlement Agreement") were passed by the independent shareholders of the Company. In addition, the resolution to approve the eSun Settlement Agreement was also passed by the independent shareholders of eSun at the special general meeting of eSun held on 13th October, 2004. Pursuant to the resolutions, the conditions precedent shall be fulfilled or otherwise waived on or before 31st January, 2005.

The Group's principal sources of funding comprise mainly funds generated from its business operations including property rental income, proceeds from sale of properties and revenue from its hotel and restaurant operations. The directors of the Company are of the view that with funds generated from the business operations of the Group and additional funds derived from certain refinancing of the existing indebtedness, there will be sufficient working capital for the Group. The Directors believe that the currency peg to US dollar would be maintained in the foreseeable future. The majority of the Group's borrowings are denominated either in Hong Kong dollars or US dollars thereby minimizing exposure to undesirable exchange rate fluctuations. On the interest rate front, the majority of the bank borrowings are maintained as floating rate debts. The current low interest rate environment has benefited the Group in relieving to some extent of the interest burden of the Group. There seems to be consensus view in the market that interest rate is on the gradual rising trend. The market situation will be closely monitored such that hedging instruments may be employed as and when necessary.

Employees and Remuneration Policies

The Group employed a total of approximately 1,600 (as at 31st July, 2003: 1,900) employees as at 31st July, 2004. The decrease in headcount is mainly due to the disposal of a 50% interest in the Majestic Hotel and Majestic Centre at 348 Nathan Road, Kowloon, Hong Kong during the year. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, a free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes.

Contingent liabilities

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 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 the Exchangeable Bonds	—	—	621,671	621,671
Guarantees given in connection with the issue of the 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.

CHAPTER 13 TO THE LISTING RULES ("Chapter 13")

(A) Financial assistance and guarantees to affiliated companies (Paragraph 13.16 of Chapter 13)

At 31st July, 2004, there were 3,746,002,320 shares of Lai Sun Development Company Limited ("LSD") (the "Shares") in issue. Based on the average closing price of the Shares of HK\$0.1132 as stated in daily quotation sheets of The Stock Exchange of Hong Kong Limited for the 5 trading days immediately preceding 31st July, 2004, the total market capitalisation (the "Total Market Capitalisation") of LSD was HK\$424,047,463.

In compliance with paragraph 13.16 of Chapter 13, details of the financial assistance and guarantees given for facilities granted to the following affiliated companies of LSD at 31st July, 2004 which in aggregate has exceeded 8% of the Total Market Capitalisation are set out below:

Name of affiliated companies	Percentage of capital held	Financial assistance HK\$'000 (Note a)	Guarantees given for banking facilities granted		Notes
			HK\$'000	Total HK\$'000	
Barnwood Limited	50	902	—	902	(c)
Bushell Limited	50	—	215,000	215,000	(b)
Capital Property Company Limited	24.5	29,274	—	29,274	(c)
Easlin Corporation	20	27,181	—	27,181	(c)
Giant Riches Limited	50	890	—	890	(d)
Giant Riches Mortgage Limited	50	529	—	529	(e)
Hillfield Trading Limited	50	461,470	—	461,470	(f)
JDL International Limited	50	1,574	—	1,574	(c)
Kippford Enterprises Limited	50	52,826	52,000	104,826	(b), (g)
Majestic Hotel Enterprises Limited and Majestic Centre Limited	50	—	250,000	250,000	(j)
Mandy Investment Company Limited	40	630	—	630	(g)
Modern Focus Limited	50	7,589	—	7,589	(g)
Naples Investments Limited	50	107,830	—	107,830	(h)
Orwell Investments Pte Ltd	50	47,336	—	47,336	(i)
Rich Vision Limited	50	12,374	—	12,374	(c)
		750,405	517,000	1,267,405	

Notes:

- (a) All balances due are unsecured, non-interest bearing and have no fixed terms of repayment.
- (b) The guarantees were given to banks, in proportion to the Group's beneficial shareholdings in Bushell Limited and Kippford Enterprises Limited, to secure the loan facilities granted to finance the property development projects situated in Hong Kong.
- (c) Advances were provided to the affiliated companies to finance their investments in the property development projects situated in Thailand.
- (d) Giant Riches Limited is the developer of The Panorama at Tsuen Wan, Hong Kong. The advances represented the outstanding fees on services provided by the Group.
- (e) Giant Riches Mortgage Limited is the company providing second mortgage loans to the purchasers of the residential units of The Panorama. Advances were provided to the company to finance its loan business.
- (f) The advance was provided to Hillfield Trading Limited for its on-lending to Bushell Limited, its wholly-owned subsidiary, to finance the property development of the Kimberley 26 project (formerly known as the Furama Court project) at Tsim Sha Tsui, Kowloon, Hong Kong.
- (g) The advances were provided to these companies to finance property development projects situated in Hong Kong.
- (h) The advance was provided to Naples Investments Limited to finance its investments in a hotel and related operations in the Philippines.
- (i) The advance was provided to Orwell Investment Pte Limited for on-lending to its subsidiary to finance the latter's golf club and related operations in the Mainland of China.
- (j) A guarantee was given by the Company to a bank to secure 50% of a banking facility of up to HK\$500 million granted by a bank to Majestic Hotel Enterprises Limited and Majestic Centre Limited (being the owners of Majestic Hotel and Majestic Centre both situated at Kowloon, Hong Kong, respectively) as joint borrowers and is in proportion to the Group's beneficial shareholdings in the borrowers.

(B) Financial assistance and guarantees to affiliated companies (Paragraph 13.22 of Chapter 13)

In compliance with paragraph 13.22 of Chapter 13, the proforma combined balance sheet of the affiliated companies at 31st July, 2004 is disclosed as follows:

	HK\$'000
Fixed assets	943,365
Investment properties	252,000
Film rights	192,142
Properties under development	1,098,632
Interests in associates	141,030
Amount due from a related company	1,500,040
Interests in jointly controlled entities	1,706
Long term investments	1,885
Net current liabilities	(308,813)
Total assets less current liabilities	3,821,987
Long term borrowings	(817,782)
Amount due to a related company	(13,023)
Rental deposits received	(3,898)
Land premium payable	(495)
Deferred tax	(15,288)
Deferred income	(39,191)
Amount due to shareholders	(1,767,979)
	(2,657,656)
	1,164,331

CAPITAL AND RESERVES	
Issued capital	343,874
Share premium account	2,888,269
Contributed surplus	891,289
Fixed asset revaluation reserve	691,118
Exchange fluctuation reserve	17,592
Accumulated losses	(3,668,007)
	<u>1,164,135</u>
Minority interests	196
	<u>1,164,331</u>

(C) Advances to entities (Paragraph 13.13 of Chapter 13)

In compliance with paragraph 13.13 of Chapter 13, details of the advances to the following entities by LSD as at 31st July, 2004 which individually has exceeded 8% of the Total Market Capitalisation are set out below:

Name of Entities	Percentage of capital held	Financial assistance HK\$'000 (Note a)	Guarantees given for banking facilities granted HK\$'000 (Note b)	Total HK\$'000	Notes
Hillfield Trading Limited	50	461,470	—	461,470	(c)
Kippford Enterprises Limited	50	52,826	52,000	104,826	(d)
Majestic Hotel Enterprises Limited and Majestic Centre Limited	50	—	250,000	250,000	(g)
Naples Investments Limited	50	107,830	—	107,830	(e)
Orwell Investments Pte Ltd	50	47,336	—	47,336	(f)
Union Charm Development Limited	10	145,361	—	145,361	(d)
Bayshore Development Group Limited	10	345,981	—	345,981	(d)

Notes:

- (a) All balances due are unsecured, non-interest bearing and have no fixed term of repayment.
- (b) The guarantees were given to banks to secure the loan facilities granted to finance the property development projects situated in Hong Kong.
- (c) The advance was provided to Hillfield Trading Limited for its on-lending to Bushell Limited, its wholly-owned subsidiary, to finance the property development of the Kimberley 26 project (formerly known as Furama Court project) at Tsim Sha Tsui, Kowloon, Hong Kong.
- (d) The advances were provided to these companies to finance property development projects situated in Hong Kong.
- (e) The advance was provided to Naples Investments Limited to finance its investments in a hotel and related operations in the Philippines.
- (f) The advance was provided to Orwell Investments Pte Ltd for on-lending to its subsidiary to finance the latter's golf club and related operations in the Mainland of China.
- (g) A guarantee was given by the Company to a bank to secure 50% of a banking facility of up to HK\$500 million granted to Majestic Hotel Enterprises Limited and Majestic Centre Limited (being the owners of Majestic Hotel and Majestic Centre both situated at Kowloon, Hong Kong, respectively) as joint borrowers and is in proportion to the Group's beneficial shareholdings in the borrowers.

FINAL ORDINARY DIVIDEND

The Board does not recommend the payment of any final ordinary dividend in respect of the year ended 31st July, 2004 (2003: Nil).

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday, 29th December, 2004. Notice of the Annual General Meeting together with the Company's 2003-2004 Annual Report will be despatched to the members in due course.

PUBLICATION OF INFORMATION ON STOCK EXCHANGE WEBSITE

The Annual Report of the Company, which will contain all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Stock Exchange Listing Rules applicable under the transitional arrangements announced by the Stock Exchange on 30th January, 2004, will be submitted to the Stock Exchange on or before 29th November, 2004 for publication on website of the Stock Exchange.

By Order of the Board
Lam Kin Ngok, Peter
Chairman and President

Hong Kong, 12th November, 2004

As at the date of this announcement, the Executive Directors of the Company are Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lau Shu Yan, Julius and Mr. Wu Shiu Kee, Keith; the Non-executive Directors are Mr. Lam Kin Ming, Madam U Po Chu, Mr. Chiu Wai and Mr. Shiu Kai Wah and the Independent Non-executive Directors are Mr. David Tang, Mr. Lam Bing Kwan and Mr. Leung Shu Yin, William.