



**eSun Holdings Limited**

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Annual Report 2003

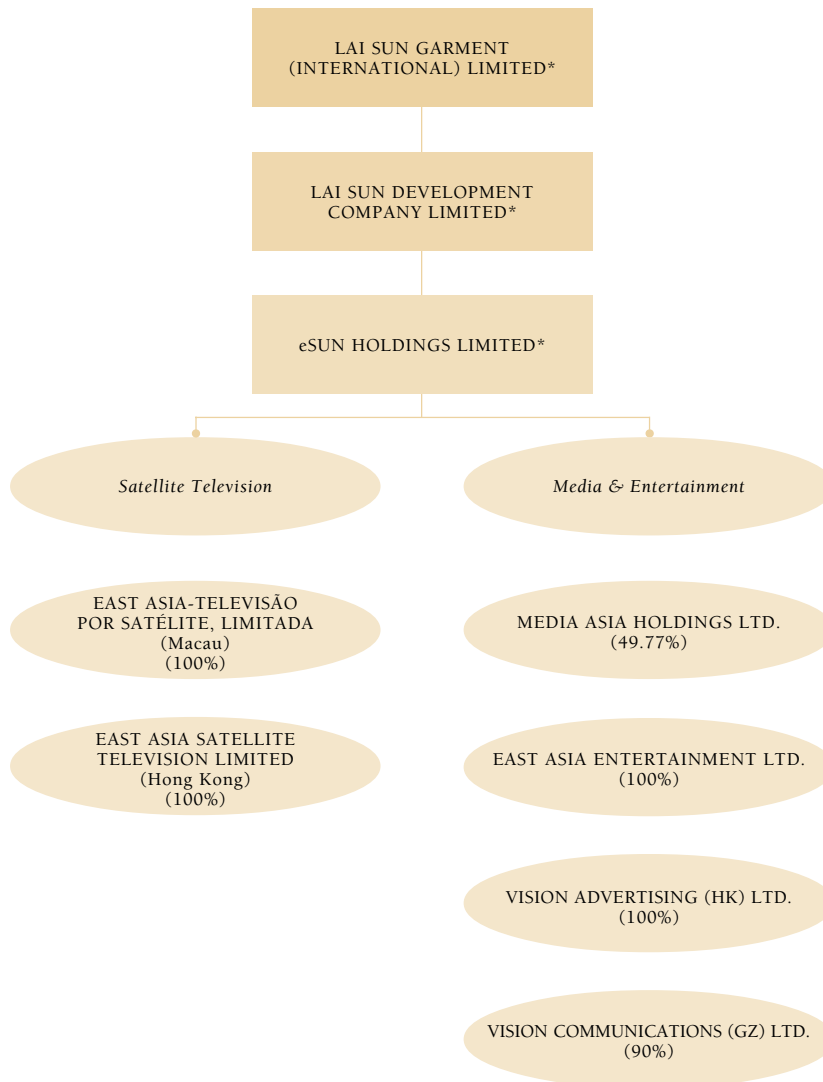
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*Stock code on Hong Kong Stock Exchange: 571*

# Corporate Profile

eSun Holdings Limited is a member of the Lai Sun Group which had been established in Hong Kong since 1947. The Company focuses on the development and operation of, and investment in satellite television, film production, entertainment, advertising agency services and other related businesses.



## Corporate Information

### Place of Incorporation

Bermuda

### Directors

#### *Executive Directors*

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Lim Por Yen

Liu Ngai Wing

#### *Non-Executive Directors*

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Shiu Kai Wah

Chiu Wai

Alfred Donald Yap\*

Low Chee Keong\*

\* *Independent non-executive Directors*

### Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### Secretary and Principal Office

Yeung Kam Hoi

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon

Hong Kong

### Share Registrars and Transfer

#### Office in Hong Kong

Tengis Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

### Share Registrars and Transfer Office in Bermuda

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08, Bermuda

### Auditors

*Ernst & Young*

*Certified Public Accountants*

15th Floor

Hutchison House

10 Harcourt Road

Central

Hong Kong

### Solicitors

*As to Hong Kong Law:*

Vincent T. K. Cheung, Yap & Co.

15th Floor, Alexandra House

16-20 Chater Road

Central

Hong Kong

*As to Bermuda Law:*

Conyers Dill & Pearman

2901 One Exchange Square

8 Connaught Place

Central

Hong Kong

### Bankers

Hang Seng Bank Limited

DBS Bank (Hong Kong) Limited

# Chairman's Statement



Chairman LIEN Jown Jing, Vincent

## BUSINESS REVIEW

### Overview of Results

The Group recorded an audited consolidated net loss attributable to shareholders of HK\$92.71 million, which was a deterioration of 34.8% from the net loss of HK\$68.80 million reported for the previous year.

Turnover fell during the year to HK\$97.80 million from HK\$176.28 million reported for the previous year, a decrease of 44.5%. This decline was attributable mainly to the decrease in entertainment event income and distribution and licence fee income, but partially offset by increases in advertising income and sale of cosmetic products. The significant decrease in other revenue for the year represented mainly the loss in interest income from Furama Hotel Enterprises Limited ("FHEL") on the debt of approximately HK\$1,500 million due from FHEL.

After including the profit of HK\$13.35 million generated by the discontinued operations of the Group's hotel management service operations, the loss before tax and minority interests of HK\$89.58 million for the year, compared with the loss of HK\$69.46 million for the previous year, can be attributed mainly to the loss recorded for the satellite television operation and the loss of interest income from FHEL.

# Chairman's Statement

## **BUSINESS REVIEW (continued)**

### **Overview of Results (continued)**

As reported in the interim report of the Company for the year under review, on 29th January, 2003, Lai Sun Development Company Limited (“LSD”), the controlling shareholder of the Company, requested the Directors of the Company to put forward a proposal to the shareholders of the Company other than members of the LSD group regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda at a price of HK\$0.28 per share of the Company (the “Scheme”). At a meeting of the Scheme Shareholders convened at the direction of the Supreme Court of Bermuda and held on 30th April, 2003, the resolution for approving the Scheme was not approved in accordance with the relevant requirements under the Companies Act of Bermuda and The Hong Kong Code on Takeovers and Mergers. The Scheme could not be put into effect and hence had lapsed.

Sale of the Group's entire interest in HKATV.com Limited to LSD at a reduced consideration of HK\$33.58 million was completed on 25th July, 2003. A gain of HK\$30.29 million on this disposal was recorded by the Group.

In October 2003, the Group disposed of its entire interest in the hotel management contract for the Caravelle Hotel in Ho Chi Minh City, Vietnam, to LSD. Following this disposal, the Group no longer has any interest in hotel management contracts.

### **Satellite Television Operation**

The momentum of stringent cost control measures had been maintained during the year and predetermined targets had been achieved. The operating results for the year had, however, been adversely affected by a provision for impairment of fixed assets amounting to HK\$21.01 million. As a result, this operation reported a loss of HK\$67.07 million for the year, compared with the loss of HK\$60.66 million in the previous year.

Since the last quarter of 2003, programmes produced by East Asia Satellite Television Limited (“EAST”) have been offered to subscribers of NOW Broadband TV of PCCW Limited in Hong Kong for a monthly fee. The response so far has been encouraging.

Progress in the construction work of the EAST Television City in Macau Special Administrative Region was slower than previously anticipated due to new refinements to the overall design to accommodate perceived changes in market trends. It is expected that completion of the project may be slightly delayed.

# Chairman's Statement

## BUSINESS REVIEW (continued)

### Film Production and Distribution

Following on the success of "Infernal Affairs", Media Asia Holdings Ltd. ("MAH"), the 49.77%-owned associate of the Group, launched two sequels to the film towards the end of 2003. Although box-office takings of both films were less prominent than the first film, gross takings were still above local industry average.

Apart from the MAH operation, the Group had also actively pursued the distribution of rights to films in the library of the Group to generate income. In August 2003, the Company acquired the perpetual rights, titles and interests to 31 films from MAH for a total consideration of HK\$124 million, payable in cash by instalments. The Group now owns a library of 127 films with worldwide and perpetual rights.

### Entertainment

Despite the adverse impact of SARS during the first half of 2003, the entertainment industry recovered relatively quickly in the second half of the year. The level of activities of East Asia Entertainment Limited ("EAE") was, however, lower in 2003 than in 2002, having produced three shows and participated in twelve other shows in joint-ventures with other parties. With the exception of two events in which minor losses had been incurred, positive results had been recorded for all remaining events.

Distribution and licence fee income decreased to HK\$13.78 million from HK\$18.32 million last year but a gross profit of HK\$921,000 had nonetheless been achieved, compared with the loss incurred last year.

Overall, the media and entertainment segment of the Group recorded a profit of HK\$1.56 million for the year, which was an improvement on the loss of HK\$25.55 million in the previous year.

# Chairman's Statement

## PROSPECTS

EAST will press on with its business development plans while it awaits approval for a satellite television downlink licence from the relevant Mainland authorities. The two-pronged policy of further improving the quality of programmes produced by EAST and raising the cost-effectiveness rating in every procedure will be rigorously enforced. If the trend of subscription for programmes of EAST on the NOW Broadband TV network persists, it is anticipated that the audience base of EAST will reach the requisite critical mass earlier than expected.

MAH has drawn up a tight production schedule of eight to ten films for the year 2004 to capitalise on a revival in popularity of local films. The signing of the Closer Economic Partnership Arrangement between the Mainland and Hong Kong in 2003 and further relaxation of travel restrictions for residents of specific provinces and cities in the Mainland to visit Hong Kong should benefit the operations of MAH.

EAE will continue to participate actively in the production of pop concerts and entertainment shows in 2004. It is expected that the projected increase in inbound tourists from the Mainland and improvement in local consumer sentiment are two factors that will impact favourably on the operating results of EAE in the forthcoming year.

The debt of approximately HK\$1,500 million owed to the Group by FHEL (the "Debt"), originally due for repayment on 31st December, 2002, remains outstanding to date. LSD, which defaulted on both its convertible bonds and exchangeable bonds after 31st March, 2003, entered into a period of informal standstill since 1st April, 2003. During this period, the aforesaid bondholders and LSD's other creditors, including the Company, whilst reserving all of their rights, will resist taking action to enforce their respective security pending the outcome of the debt restructuring exercise involving LSD and all of its creditors. LSD has yet to reach an agreement with all of its creditors on the terms of such a debt restructuring. The Directors of the Company will continue to pursue the recovery of the Debt.



## Chairman's Statement

### LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS

As at 31st December, 2003, the Group had cash and cash equivalents of HK\$22,450,000, of which over 60% were denominated in Hong Kong dollar currency.

As at 31st December, 2003, bank borrowings of HK\$19,000,000 and HK\$5,000,000 which fall due within one year and the second year, respectively, are secured by the Group's land and buildings with an aggregate net book value of HK\$70,162,000 and are interest-bearing at 2.25% above HIBOR per annum. The Group also has other borrowings of HK\$45,200,000 which are unsecured, and will fall due within one year and bear interest at 1% per month. The loan from a related company of HK\$12,712,000 is unsecured, bears interest at HSBC prime rate per annum and has no fixed terms of repayment except for an amount of HK\$212,000 which is interest-free. The loans from directors of HK\$88,108,000 are unsecured, bear interest at HSBC prime rate per annum and have no fixed terms of repayment except for an amount of HK\$7,358,000 which is interest-free. In addition, the Group has finance lease payables of HK\$35,000 and HK\$42,000 which fall due within one year and over one year to five years, respectively, as at 31st December, 2003.

The Group's gearing is considered low, as the debt to equity ratio was only 10%, expressed as a percentage of total borrowings to total net assets. As at 31st December, 2003, the Group did not have any financial instruments for hedging purpose, or foreign currency net investment hedged by currency borrowings or other hedging instruments.

Future capital expenditures will mainly consist of the land and construction cost for the EAST-TV City in COTAI City in Macau. As at 31st December, 2003, the capital commitments contracted for in respect of this project amounted to HK\$21,979,000 (2002: HK\$42,441,000).

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

# Chairman's Statement

## EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 156 (as at 31st December, 2002: 137) employees as at 31st December, 2003. The increase in headcount is mainly due to the acquisition of Guangzhou Beautifirm Cosmetic Limited. The total staff costs including net pension contributions for the year was approximately HK\$47,157,000 (excluding directors' remuneration). Pay rates for employees are maintained at competitive level, salary and bonuses are rewarded on a performance related basis. Other staff benefits include free hospitalisation insurance plan, subsidised medical care and subsidies for external educational and training programmes. The Company adopted a share option scheme for its directors and employees on 25th November, 1996.

## CONTINGENT LIABILITIES

Details of contingent liabilities of the Group at the balance sheet date are set out in note 37 to the financial statements.

## MANAGEMENT AND STAFF

The year under review had witnessed some of the most dramatic volatilities in the local economy in recent years. My colleagues on the Board and I would like to offer our appreciation to the management and staff for their persevering spirit through such difficult times, and to our shareholders and business associates for their understanding and support.

**Lien Jown Jing, Vincent**

*Chairman*

Hong Kong

16th April, 2004

# Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2003.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the development and operation of and investment in media, entertainment, Internet and technology-oriented businesses, satellite television operations, the provision of advertising agency services, hotel management operations and sale of cosmetic products, the business of which commenced in the current year. Other than the commencement of sale of cosmetic products and the disposal and discontinuance of the Group’s hotel management operations, further details of which are included in note 7 to the financial statements, there were no significant changes in the nature of the Group’s principal activities during the year.

## RESULTS AND DIVIDENDS

Details of the results of the Group for the year ended 31st December, 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 76.

No interim dividend was paid or declared in respect of the year ended 31st December, 2003 (2002: Nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2003 (2002: Nil).

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## DIRECTORS

The Directors of the Company who were in office during the year and those as at the date of this report are as follows:

Lien Jown Jing, Vincent (*Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Lim Por Yen

Liu Ngai Wing

Lam Kin Ming

Tam Wai Chu, Maria

U Po Chu

Shiu Kai Wah

Chiu Wai

Alfred Donald Yap\*

Low Chee Keong\*

Shi Nan Sun

(*resigned on 1st June, 2003*)

\* *Independent non-executive Directors*

# Report of the Directors

## DIRECTORS (continued)

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Lim Por Yen, Mr. Lam Kin Ming and Mr. Shiu Kai Wah will retire by rotation at the forthcoming Annual General Meeting. Mr. Lam Kin Ming and Mr. Shiu Kai Wah, being eligible, offer themselves for re-election. Mr. Lim Por Yen has informed the Board of his intention of not seeking re-election at the aforesaid Meeting.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company, or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

## CONNECTED TRANSACTIONS

- (a) On 8th November, 2002, the Company and Lai Sun Development Company Limited ("LSD") entered into an agreement pursuant to which the Company agreed to sell and LSD agreed to purchase the entire issued share capital of Houseman International Limited, a wholly-owned subsidiary of the Company, which holds a 50% equity interest in HKATV.com Limited, for a consideration of HK\$46,080,000 (the "Transaction"). On 14th May, 2003, the Company and LSD entered into a supplemental agreement pursuant to which the consideration of the Transaction was reduced to HK\$33,580,000. The Transaction was completed on 25th July, 2003.
- (b) On 26th September, 2003, Delta Asia Limited ("DAL"), a wholly-owned subsidiary of the Company, and Furama Hotels and Resorts International Limited ("FHRI"), a wholly-owned subsidiary of LSD, entered into an agreement pursuant to which DAL agreed to sell and FHRI agreed to purchase, the entire issued share capital of Glynhill Hotels and Resorts (Vietnam) Pte Ltd ("GHRV"), a wholly-owned subsidiary of DAL holding the hotel management rights of the Caravelle Hotel, for a consideration of HK\$10,300,000.

Since LSD is a substantial shareholder of the Company, the above transactions constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further details of the above transactions are included in note 17 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

A management agreement was entered into on 23rd April, 1998 between a subsidiary of the Group, GHRV and Chains Caravelle Hotel Joint Venture Company Limited ("CCJV"), which is a subsidiary of LSD. The agreement sets out the management services provided to a hotel owned by CCJV in Ho Chi Minh City, Vietnam. As mentioned in the Section "Connected transactions" above, during the year, GHRV was disposed of to FHRI and no management service had been provided by the Group to CCJV since then.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were deemed to be interested in the above contract by virtue of their interests described under the section "Directors' interests" on pages 16 and 17.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS (continued)

In the opinion of the Directors, the above transaction arose in the ordinary course of business of the Group.

Except as disclosed above, under the heading "Practice Note 19 to the Listing Rules" on pages 12 and 13, and in the notes to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed below, during the year and up to the date of this report, the following Directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Lim Por Yen is a shareholder of Media Asia Holdings Ltd. ("MAH"), a private company incorporated in the British Virgin Islands in 1994. MAH is based in Hong Kong and its principal activities are the production and distribution of films.

Mr. Lam Kin Ngok, Peter and Mr. Lee Po On are directors of MAH.

Mr. Lam Kin Ming is a director and the controlling shareholder of Big Honour Investment Ltd. ("Big Honour") (a private company incorporated in Hong Kong in 1988). The principal activities of Big Honour are the production of pop concerts and management of artistes.

Prior to Miss Shi Nan Sun's resignation from the Board on 1st June, 2003, Miss Shi was a director and substantial shareholder of Film Workshop Co. Ltd., the principal activity of which was film production. The entire issued share capital of the above company was owned by Miss Shi and her spouse. The above company has been established since 1984.

As the Board is independent from the boards of the aforesaid companies and none of the above Directors of the Company can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from the businesses of, the aforesaid companies.

## PRACTICE NOTE 19 TO THE LISTING RULES

### Advance to Furama Hotel Enterprises Limited ("FHEL"), a subsidiary of LSD

On 1st June, 2000, the Company and LSD entered into a reorganisation agreement (the "Reorganisation Agreement") which contemplated the cancellation of the Development Agreement (as defined in note 20 to the financial statements) entered into in February 1999 and the reduction of the outstanding indebtedness owed by FHEL to Golden Pool Enterprise Limited ("GPEL"), a subsidiary of the Company.

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

## Report of the Directors

### PRACTICE NOTE 19 TO THE LISTING RULES (continued)

As of 31st December, 2003, the indebtedness due from FHEL was approximately HK\$1,500,040,000. GPEL is entitled to share the security in item (B) below with LSD's Exchangeable Bondholders and Convertible Bondholders (collectively referred to as the "Bondholders") in respect of the indebtedness due from FHEL on a pro rata basis:

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

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

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

The Directors had been discussing with the management of FHEL and LSD on the repayment of the outstanding balances since early January 2003. As at the date of approval of these financial statements, the balance of HK\$1,500,040,000 due from FHEL remained outstanding and FHEL did not pay interest on the debt due from FHEL as from 1st January, 2003. LSD, which defaulted on the Exchangeable Bonds and Convertible Bonds after 31st March, 2003, has entered into a period of informal standstill since 1st April, 2003 with the Bondholders. LSD is currently working closely with its legal and financial advisers to formulate a plan for the settlement and/or repayment of the outstanding balances and the interest terms on the indebtedness due to the Group and the Bondholders, and its other borrowings.

### BIOGRAPHICAL DETAILS OF DIRECTORS

#### Executive Directors

Mr. Lien Jown Jing, Vincent, Chairman, aged 43, first joined the Board as an independent non-executive Director in August 1998 and was later appointed an executive Director and elected the Chairman of the Company in December 1999. He has over 13 years' experience in banking and corporate finance in Hong Kong, China, Singapore and South-east Asia, having held various senior positions at different major multinational banking institutions.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

### Executive Directors (continued)

Mr. Lee Po On, Chief Executive Officer, aged 48, was appointed an executive Director and Chief Executive Officer of the Company in March 2000. Mr. Lee joined the Lai Sun Group in November 1987. He is a director of Lai Sun Garment (International) Limited and Lai Fung Holdings Limited. Mr. Lee is a Fellow of the Association of Chartered Certified Accountants.

Mr. Lam Kin Ngok, Peter, aged 46, was appointed an executive Director of the Company in October 1996. He is also a deputy chairman of Lai Sun Garment (International) Limited (“LSG”), the chairman and president of Lai Sun Development Company Limited (“LSD”), a director of Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is the controlling shareholder of LSD. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

Mr. Lim Por Yen, aged 89, is the founder of the Lai Sun Group. He is an executive Director of the Company and was first appointed to the Board in October 1996. He is also the chairman and managing director of Lai Sun Garment (International) Limited (“LSG”), the honorary chairman of Lai Sun Development Company Limited (“LSD”) and the chairman of Lai Fung Holdings Limited and Crocodile Garments Limited. LSD is the controlling shareholder of the Company and LSG is the controlling shareholder of LSD. Mr. Lim has over 60 years’ experience in the garment business and became involved in the property development and investment business since the mid-1950’s. He was admitted to the honorary university fellowship of the University of Hong Kong in December 2003. Mr. Lim was also one of the Hong Kong Affairs Advisers to the People’s Republic of China and is a founder member of The Better Hong Kong Foundation. Mr. Lim is the husband of Madam U Po Chu and the father of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming.

Mr. Liu Ngai Wing, aged 53, was appointed an executive Director of the Company in November 1998. He is also an independent non-executive director of Hang Fung Gold Technology Limited, Climax International Company Limited and Jackley Holdings Ltd., all being listed companies in Hong Kong. Mr. Liu holds a Master’s Degree in Business Administration, a Master of Science Degree in Hotel and Tourism Management and a Master of Science Degree in Global Business, and is an Associate Member of both the Hong Kong Society of Accountants and the Institute of Chartered Secretaries and Administrators, and a Fellow of the Association of Chartered Certified Accountants.

### Non-Executive Directors

Mr. Lam Kin Ming, aged 66, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Lam is also a deputy chairman of Lai Sun Garment (International) Limited (“LSG”) and has been involved in the day-to-day management of the garment business since 1958. He is also the deputy chairman of Crocodile Garments Limited and Lai Fung Holdings Limited and a director of Lai Sun Development Company Limited (“LSD”). LSD is the controlling shareholder of the Company and LSG is the controlling shareholder of LSD. Mr. Lam is a son of Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

### Non-Executive Directors (continued)

Miss Tam Wai Chu, Maria, G.B.S., C.B.E., J.P., aged 58, was appointed to the Board in October 2000. Miss Tam is a member of the Hong Kong Bar Association having been called to the Bar at Gray's Inn in England in 1972 and admitted into practice in Hong Kong in 1973. She has been closely involved in community and public administration services in Hong Kong since 1979 and has served on an extensive number of public and government bodies. Miss Tam is a member of the Basic Law Committee of Hong Kong Special Administrative Region, and a deputy to the National People's Congress. In addition to her other current community duties, she is also a board member of the Airport Authority of Hong Kong and a board member of the Urban Renewal Authority, and the president of Hong Kong Police Force Junior Police Officers' Association. Miss Tam sits on the boards of a number of publicly listed and private companies in Hong Kong.

Madam U Po Chu, aged 79, is a non-executive Director of the Company and was first appointed to the Board in October 1996. She is also a non-executive director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD") and Crocodile Garments Limited, and an executive director of Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is the controlling shareholder of LSD. Madam U has 59 years' experience in the garment manufacturing business and has been involved in the printing business since the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and also became involved in property development and investment in the late 1980's. She is Mr. Lim Por Yen's wife.

Mr. Shiu Kai Wah, aged 71, is a non-executive Director of the Company and was first appointed to the Board in October 1996. He is also a director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD"), Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is the controlling shareholder of LSD. Mr. Shiu has over 30 years' experience in the management of the garment business.

Mr. Chiu Wai, aged 73, is a non-executive Director of the Company and was first appointed to the Board in October 1996. Mr. Chiu is also a director of Lai Sun Garment (International) Limited ("LSG"), Lai Sun Development Company Limited ("LSD"), Crocodile Garments Limited and Lai Fung Holdings Limited. LSD is the controlling shareholder of the Company and LSG is the controlling shareholder of LSD. Mr. Chiu has close to 50 years' experience in production management.

Mr. Alfred Donald Yap, J.P., aged 65, is an independent non-executive Director of the Company and was first appointed to the Board in December 1996. Mr. Yap is presently a consultant of Donald Yap, Cheng & Kong, Solicitors and Notaries. Mr. Yap is a former president of The Law Society of Hong Kong and past president of The Law Association for Asia and the Pacific (LAWASIA). Mr. Yap is also a former Hong Kong Affairs Adviser appointed by the Chinese Government. He has been appointed a member of the Town Planning Board on 1st April, 2004.

Mr. Low Chee Keong, aged 43, was appointed an independent non-executive Director of the Company in August 1999. Mr. Low has been a member of the Chartered Institute of Marketing of the United Kingdom since 1986. He has over 10 years' experience in the property development and maintenance industry in Singapore, and is currently the managing director of Hong Siong Holding Pte Ltd..



# Report of the Directors

## SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 32 to the financial statements.

In compliance with the provisions of Chapter 17 of the Listing Rules, appropriate amendments will be made to items (b) and (d) in note 32 to the financial statements and other terms and conditions of the share option scheme should the Company continue to grant options under the existing scheme.

## DIRECTORS' INTERESTS

As at 31st December, 2003, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

### The Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares			Total	Percentage
			Corporate Interests		Capacity		
Lien Jown Jing, Vincent	931,800	Nil	Nil	Beneficial owner	931,800	0.14%	
Lee Po On	5,195,934	Nil	Nil	Beneficial owner	5,195,934	0.77%	
Lim Por Yen	Nil	Nil	285,512,791 (Note 1)	Beneficial owner	285,512,791	42.54%	
Liu Ngai Wing	3,321,215	Nil	Nil	Beneficial owner	3,321,215	0.49%	
U Po Chu	Nil	285,512,791 (Note 2)	Nil	Beneficial owner	285,512,791	42.54%	

#### Notes :

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

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

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

## Report of the Directors

### DIRECTORS' INTERESTS (continued)

Save as disclosed above, as at 31st December, 2003, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

### ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Except for the share option scheme disclosed above and in note 32 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st December, 2003, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lai Sun Development Company Limited ("LSD")	Beneficial owner	Corporate	285,512,791 (Note 2)	42.54%
Lai Sun Garment (International) Limited (LSG")	Beneficial owner	Corporate	285,512,791 (Note 3)	42.54%
Lim Por Yen	Beneficial owner	Corporate	285,512,791 (Note 4)	42.54%
U Po Chu	Beneficial owner	Family	285,512,791 (Note 5)	42.54%
Lai Yuen Fong	Beneficial owner	Family	285,512,791 (Note 6)	42.54%
Silver Ace Limited	Beneficial owner	Corporate	50,439,600 (Note 7)	7.52%

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lagonda Resources Limited	Beneficial owner	Corporate	50,439,600 (Notes 7 and 8)	7.52%
Li Chi Keung	Beneficial owner	Corporate & Family	50,439,600 (Notes 7 and 9)	7.52%
Wong Hoi Ping	Beneficial owner	Corporate & Family	50,439,600 (Notes 7 and 10)	7.52%
Lovendale International Inc.	Person having a security interest in shares	Corporate	285,512,791 (Note 7)	42.54%
Onshine Finance Limited	Person having a security interest in shares	Corporate	100,000,002 (Note 7)	14.90%

### Notes:

- Family and corporate denote family interest and corporate interest respectively.
- This interest has been pledged to a non-qualified lender by way of security.
- These interests in the Company were held by LSD and its subsidiaries. LSG was deemed to be interested in the 285,512,791 shares in the Company held by LSD and its subsidiaries by virtue of LSG and its wholly-owned subsidiary holding collectively an interest of approximately 42.25% in the issued ordinary share capital of LSD.
- Mr. Lim Por Yen was deemed to be interested in such shares in the Company by virtue of his interest (including that of his spouse) of approximately 33.99% in the issued share capital of LSG.  
  
Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu were directors of LSG and held in aggregate an interest of approximately 42% in the issued share capital of LSG.
- Madam U Po Chu was deemed to be interested in 285,512,791 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
- Madam Lai Yuen Fong was deemed to be interested in 285,512,791 shares in the Company by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
- Persons falling under the category of "Other Persons" in Practice Note 5 of the Listing Rules.
- Lagonda Resources Limited was taken to be interested in 50,439,600 shares in the Company beneficially owned by Silver Ace Limited due to its corporate interests therein.
- Mr. Li Chi Keung was taken to be interested in 50,439,600 shares in the Company by virtue of his corporate and family interests in Silver Ace Limited.
- Ms. Wong Hoi Ping was taken to be interested in 50,439,600 shares in the Company by virtue of her corporate and family interests in Silver Ace Limited.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of equity derivatives and debentures of the Company as at 31st December, 2003.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31st December, 2003, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK\$2,888,269,000, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 59% of the total sales for the year and sales to the largest customer included therein amounted to 27%. Purchases from the Group's five largest suppliers accounted for 75% of the total purchases for the year and purchases from the largest supplier included therein amounted to 44%.

Other than Mr. Lim Por Yen who owns an approximate 6% equity interest in a company which is one of the major customers and suppliers of the Group, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

### Results

	Year ended 31st December,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>97,804</u>	<u>176,278</u>	<u>84,376</u>	<u>206,948</u>	<u>374,694</u>
LOSS BEFORE TAX	(89,575)	(69,460)	(179,423)	(1,114,292)	(1,322,202)
Tax	<u>(3,129)</u>	<u>985</u>	<u>(2,130)</u>	<u>(14,875)</u>	<u>(4,649)</u>
LOSS BEFORE MINORITY INTERESTS	(92,704)	(68,475)	(181,553)	(1,129,167)	(1,326,851)
Minority interests	<u>(3)</u>	<u>(324)</u>	<u>(135)</u>	<u>462</u>	<u>442,100</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	<u>(92,707)</u>	<u>(68,799)</u>	<u>(181,688)</u>	<u>(1,128,705)</u>	<u>(884,751)</u>

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued) Assets, Liabilities and Minority Interests

	As at 31st December,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Fixed assets	144,251	154,000	141,975	95,089	1,107,843
Long term investments	—	—	9,682	34,553	85,001
Interests in jointly-controlled entities	1,463	779	6,006	—	—
Interests in associates	113,053	48,903	85,983	52,537	81,062
Due from Furama Hotel Enterprises Limited	1,500,040	1,500,040	1,500,040	1,500,040	—
Deposits paid to Furama Hotel Enterprises Limited	—	—	—	—	1,900,000
Deferred tax assets	—	—	661	1,360	1,397
Long term receivables	—	—	—	—	92,832
Film rights	197,655	113,109	—	—	—
Current assets	<u>64,193</u>	<u>87,128</u>	<u>219,791</u>	<u>284,912</u>	<u>496,539</u>
<b>TOTAL ASSETS</b>	<b><u>2,020,655</u></b>	<b><u>1,903,959</u></b>	<b><u>1,964,138</u></b>	<b><u>1,968,491</u></b>	<b><u>3,764,674</u></b>
Current liabilities	(236,571)	(81,670)	(72,385)	(57,016)	(195,487)
Long term bank loans and other borrowings	<u>(5,042)</u>	<u>(77)</u>	<u>(107)</u>	<u>(103)</u>	<u>(232,829)</u>
<b>TOTAL LIABILITIES</b>	<b><u>(241,613)</u></b>	<b><u>(81,747)</u></b>	<b><u>(72,492)</u></b>	<b><u>(57,119)</u></b>	<b><u>(428,316)</u></b>
<b>MINORITY INTERESTS</b>	<b><u>(196)</u></b>	<b><u>(206)</u></b>	<b><u>(319)</u></b>	<b><u>(221)</u></b>	<b><u>(338,754)</u></b>
	<b><u>1,778,846</u></b>	<b><u>1,822,006</u></b>	<b><u>1,891,327</u></b>	<b><u>1,911,151</u></b>	<b><u>2,997,604</u></b>

### POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 38 to the financial statements.

### CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report. All non-executive Directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-laws.

## Report of the Directors

### AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive Directors, Mr. Alfred Donald Yap and Mr. Low Chee Keong as at the report date.

### AUDITORS

Ernst & Young retire at the conclusion of the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the said meeting.

On behalf of the Board

**Lien Jown Jing, Vincent**  
*Chairman*

Hong Kong  
16th April, 2004

# Report of the Auditors



To the members

**eSun Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 26 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:



# Report of the Auditors

## SCOPE LIMITATIONS

### (a) Due from Furama Hotel Enterprises Limited

As further detailed in note 20 to the financial statements, included in the consolidated balance sheet of the Group as at 31st December, 2003 is an amount of HK\$1,500,040,000 (the “Debt”) owed to Golden Pool Enterprise Limited (“GPEL”), an indirect wholly-owned subsidiary of the Company, by Furama Hotel Enterprises Limited, a wholly-owned subsidiary of Lai Sun Development Company Limited (“LSD”), which is a substantial shareholder of the Company. The repayment of the Debt is guaranteed by LSD. For the reasons detailed in note 20 to the financial statements, the directors of the Company consider that the recoverable amount of such Debt, together with the related interest thereon, is currently uncertain and, in the absence of any reliable information, they are unable to estimate the amount of any specific provision against the Debt at the current time. We have been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the recoverability of the Debt as included in the consolidated balance sheet of the Group. Included in the Company’s balance sheet as at 31st December, 2003 is an amount of HK\$1,500,040,000 due from Glynhill International Limited, a wholly-owned subsidiary of the Company, which in turn advanced the same amount to GPEL and we have also been unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the recoverability of such amount due from the subsidiary as included in the Company’s balance sheet.

### (b) Film rights

As further detailed in note 21 to the financial statements, included in the consolidated balance sheet of the Group as at 31st December, 2003 are film rights with aggregate carrying amounts of HK\$197,655,000. The directors engaged an independent third party (the “Valuer”) to perform a valuation of the Group’s all rights, titles and interests to 127 films (the “127 Film Rights”) with carrying value of HK\$197,541,000 as at 31st December, 2003 in order to provide them with a reference to assess if there is any impairment in value of the Group’s film rights as at that date. Having regard to the valuation performed by the Valuer and the current market conditions, the directors are of the opinion that there is no impairment in the value of the Group’s film rights as at 31st December, 2003. We have been unable to obtain sufficient reliable information to carry out the auditing procedures required by the Statement of Auditing Standards 520 “Using the Work of an Expert”, issued by the Hong Kong Society of Accountants, to satisfy ourselves as to (i) the competence and objectivity of the Valuer; and (ii) the adequacy of the scope of the Valuer’s work as to the 127 Film Rights. Accordingly, we have been unable to carry out adequate auditing procedures to assess the carrying amount of the Group’s film rights as at 31st December, 2003. Included in the consolidated profit and loss account for the year ended 31st December, 2003 is an amortisation charge of the Group’s film rights of HK\$2,591,000. We are also unable either to obtain sufficient reliable information, or to carry out alternative auditing procedures to satisfy ourselves as to the appropriateness of the basis of computation of the amount of the amortisation charge.

Any adjustments that might have been found necessary in respect of each of (a) and (b) above would have a consequential impact on the net assets of the Company and the Group as at 31st December, 2003 and the net loss attributable to the shareholders for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

# Report of the Auditors

## FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity positions including obtaining funding from the bankers and financial creditors, and the tightening of cost controls. The financial statements have been prepared on a going concern basis, the validity of which depends upon the recovery of the Debt, the ongoing support of the Group's bankers and other financial creditors, the success of other measures being undertaken, and attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made, but because of the significant uncertainty relating to the success of the measures currently undertaken by the Group as set out in note 2 to the financial statements, we are not able to determine whether the going concern basis adopted in the financial statements is appropriate.

## DISCLAIMER OF OPINION

Because of the significance of each of (i) the possible effects of the scope limitations in the evidence available to us as set out under (a) of the basis of opinion section of this report; and (ii) the fundamental uncertainty relating to the going concern basis, we 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 Company and of the Group as at 31st December, 2003 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had we not disclaimed our opinion in respect of the matters described above, we would otherwise have qualified our opinion in respect of the limitation in evidence relating to the film rights set out in paragraph (b) above in the basis of opinion section of this report.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
16th April, 2004

# Consolidated Profit and Loss Account

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	8		
Continuing operations		94,334	168,852
Discontinued operations	7	3,470	7,426
		<u>97,804</u>	<u>176,278</u>
Cost of sales		<u>(112,290)</u>	<u>(204,121)</u>
Gross loss		(14,486)	(27,843)
Other revenue	8	1,940	82,792
Marketing expenses		(10,572)	(11,357)
Administrative expenses		(78,430)	(88,283)
Other operating gains/(expenses), net		(8,259)	16,580
Gain on disposal of discontinued operations	7	10,361	—
Gain on disposal of interests in associates		31,923	532
		<u>31,923</u>	<u>532</u>
LOSS FROM OPERATING ACTIVITIES	9	(67,523)	(27,579)
Finance costs	10	(4,296)	(1,708)
Amortisation of goodwill on acquisition of an associate		(2,214)	—
Provisions for amounts due from jointly-controlled entities		(1,050)	(6,530)
Share of profits and losses of:			
Associates		(12,520)	(31,530)
Jointly-controlled entities		(1,972)	(2,113)
		<u>(1,972)</u>	<u>(2,113)</u>
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		(102,921)	(77,330)
Discontinued operations	7	13,346	7,870
		<u>(89,575)</u>	<u>(69,460)</u>
Tax	12	(3,129)	985
		<u>(3,129)</u>	<u>985</u>
LOSS BEFORE MINORITY INTERESTS		(92,704)	(68,475)
Minority interests		(3)	(324)
		<u>(3)</u>	<u>(324)</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	13, 33	<u>(92,707)</u>	<u>(68,799)</u>
LOSS PER SHARE	14		
— BASIC		<u>HK14.86 cents</u>	<u>HK12.04 cents</u>
— DILUTED		<u>N/A</u>	<u>N/A</u>

# Consolidated Balance Sheet

31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	15	144,251	154,000
Long term investments	16	—	—
Interests in jointly-controlled entities	18	1,463	779
Interests in associates	19	113,053	48,903
Due from Furama Hotel Enterprises Limited	20	1,500,040	1,500,040
Film rights	21	197,655	113,109
		<u>1,956,462</u>	<u>1,816,831</u>
<b>CURRENT ASSETS</b>			
Short term investments	22	83	135
Self-produced and purchased programmes		3,594	5,373
Loan receivable	23	—	2,548
Debtors and deposits	24	38,066	60,346
Cash and cash equivalents	25	22,450	18,726
		<u>64,193</u>	<u>87,128</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	26	70,378	34,095
Tax payable		1,138	14,495
Finance lease payables	27	35	31
Interest-bearing bank and other borrowings	28	64,200	25,000
Loan from a related company	29	12,712	—
Loans from directors	30	88,108	8,049
		<u>236,571</u>	<u>81,670</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>(172,378)</u>	<u>5,458</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,784,084</b>	<b>1,822,289</b>

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# Consolidated Balance Sheet

31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
— page 27		1,784,084	1,822,289
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payables	27	(42)	(77)
Interest-bearing bank and other borrowings	28	<u>(5,000)</u>	<u>—</u>
		<u>(5,042)</u>	<u>(77)</u>
<b>MINORITY INTERESTS</b>			
		<u>(196)</u>	<u>(206)</u>
		<u>1,778,846</u>	<u>1,822,006</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	335,592	285,592
Reserves	33	<u>1,443,254</u>	<u>1,536,414</u>
		<u>1,778,846</u>	<u>1,822,006</u>

Lien Jown Jing, Vincent  
Director

Lee Po On  
Director

# Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>TOTAL EQUITY AT 1ST JANUARY</b>		<b>1,822,006</b>	<b>1,891,327</b>
Exchange realignment on translation of the financial statements of foreign subsidiaries, net	33	<u>(17)</u>	<u>(522)</u>
Net losses not recognised in the profit and loss account		<u>(17)</u>	<u>(522)</u>
Issue of shares	31	50,000	—
Share issue expenses	31	(364)	—
Exchange fluctuation reserve released upon disposal of a subsidiary	33	(72)	—
Net loss attributable to shareholders	33	<u>(92,707)</u>	<u>(68,799)</u>
<b>TOTAL EQUITY AT 31ST DECEMBER</b>		<b><u>1,778,846</u></b>	<b><u>1,822,006</u></b>

# Consolidated Cash Flow Statement

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(89,575)	(69,460)
Adjustments for:			
Finance costs	10	4,296	1,708
Amortisation of goodwill on acquisition of an associate		2,214	—
Provisions for amounts due from jointly-controlled entities		1,050	6,530
Share of profits and losses of associates		12,520	31,530
Share of profits and losses of jointly-controlled entities		1,972	2,113
Gain on disposal of discontinued operations	7	(10,361)	—
Gain on disposal of interests in associates		(31,923)	(532)
Interest income	8	(136)	(78,536)
Depreciation	9	12,757	13,828
Impairment of a long term investment	9	—	4,681
Loss on disposal of a long term investment	9	—	501
Impairment loss of self-produced and purchased programmes	9	—	6,661
Amortisation of self-produced and purchased programmes	9	666	5,934
Amortisation of film rights	9	2,591	—
Provision for an amount due from an associate	9	—	2,702
Unrealised holding loss/(gain) on short term investments	9	(36)	291
Loss/(gain) on disposal of short term investments	9	(14)	285
Provision for bad and doubtful debts	9	112	1,549
Loss on disposal of fixed assets	9	196	224
Impairment of fixed assets	9	21,011	—
Write-back of provisions for bad and doubtful debts	9	(1,081)	(9,287)
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited	9, 35(a)	—	(12,096)
Operating loss before working capital changes		(73,741)	(91,374)
Increase in film rights		(76,500)	—
Decrease in short term investments		—	458
Decrease/(increase) in self-produced and purchased programmes		1,113	(15,439)
Decrease in inventories		2,590	—
Decrease in loan receivable		2,548	36,586
Decrease in debtors and deposits		20,179	36,034
Increase in creditors and accruals		9,053	3,295
Cash consumed in operations		(114,758)	(30,440)
Hong Kong taxes paid		(13,441)	—
Overseas taxes refunded/(paid)		56	(231)
Net cash inflow/(outflow) from operating activities			
— page 31			
Continuing operations		(132,951)	(36,593)
Discontinued operations		4,808	5,922
		(128,143)	(30,671)

# Consolidated Cash Flow Statement

Year ended 31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Net cash inflow/(outflow) from operating activities</b>			
— page 30			
Continuing operations		(132,951)	(36,593)
Discontinued operations		4,808	5,922
		<u>(128,143)</u>	<u>(30,671)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	15	(23,896)	(26,083)
Proceeds from disposal of fixed assets		—	5
Proceeds from disposal of interests in associates		35,215	7,442
Proceeds from disposal of a long term investment		—	4,500
Advances to associates		(1,184)	(2,427)
Loans to associates		—	(78,932)
Repayment of amounts due from associates		—	460
Advances to jointly-controlled entities		(3,734)	(3,416)
Dividend received from an associate		90	—
Proceeds from disposal of short term investments		102	—
Acquisition of subsidiaries	34(b)	457	—
Disposal of a subsidiary	34(c)	10,289	—
Interest received		136	85,441
Decrease in cash held in trust		—	2,276
		<u>17,475</u>	<u>(10,734)</u>
<b>Net cash inflow/(outflow) from investing activities</b>			
Continuing operations		17,475	(10,734)
Discontinued operations		—	—
		<u>17,475</u>	<u>(10,734)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Share issue expenses	31	(364)	—
New bank loans		10,000	10,000
New other borrowings		45,200	—
Loans from directors and a related company		73,758	8,000
Repayment of bank loans		(11,000)	(10,000)
Capital element of finance lease rental payments		(31)	(26)
Interest paid		(3,158)	(1,284)
Repayment to a minority shareholder		—	(244)
Dividend paid to a minority shareholder		(13)	(180)
		<u>114,392</u>	<u>6,266</u>
<b>Net cash inflow from financing activities</b>			
Continuing operations		114,392	6,266
Discontinued operations		—	—
		<u>114,392</u>	<u>6,266</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		3,724	(35,139)
Cash and cash equivalents at beginning of year		<u>18,726</u>	<u>53,865</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>22,450</u>	<u>18,726</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents	25	<u>22,450</u>	<u>18,726</u>



# Company Balance Sheet

31st December, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	17	1,846,552	1,737,759
Balances with associates	19	—	4,819
		<u>1,846,552</u>	<u>1,742,578</u>
<b>CURRENT ASSETS</b>			
Self-produced and purchased programmes		3,474	4,141
Debtors and deposits		2,224	11,699
Cash and cash equivalents	25	261	115
		<u>5,959</u>	<u>15,955</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		1,219	2,325
Tax payable		412	412
Interest-bearing bank and other borrowings	28	64,200	25,000
Loan from a related company	29	12,712	—
Loans from directors	30	88,108	—
		<u>166,651</u>	<u>27,737</u>
<b>NET CURRENT LIABILITIES</b>		<u>(160,692)</u>	<u>(11,782)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,685,860</b>	<b>1,730,796</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	28	(5,000)	—
		<u>1,680,860</u>	<u>1,730,796</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	335,592	285,592
Reserves	33	1,345,268	1,445,204
		<u>1,680,860</u>	<u>1,730,796</u>

Lien Jown Jing, Vincent  
Director

Lee Po On  
Director

# Notes to Financial Statements

31st December, 2003

## 1. CORPORATE INFORMATION

The principal place of business of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

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

- development and operation of, and investment in media, entertainment, Internet and technology-oriented businesses;
- the provision of advertising agency services;
- hotel management operations (discontinued during the year — note 7);
- satellite television operations; and
- sale of cosmetic products.

## 2. BASIS OF PRESENTATION

The Group recorded a net loss attributable to shareholders of approximately HK\$93 million for the year ended 31st December, 2003 (2002: HK\$69 million). As at 31st December, 2003, the Group had consolidated net current liabilities of HK\$172 million (2002: net current assets of HK\$5 million), consolidated accumulated losses of HK\$2,336 million (2002: HK\$2,243 million) and consolidated net assets of HK\$1,779 million (2002: HK\$1,822 million).

Included in the net current liabilities of HK\$172 million were bank loans of HK\$19 million, loans from a related company and directors aggregating HK\$101 million and other loans of HK\$45 million (the “Loan Providers”), all of which are scheduled to mature within the next 12 months from the balance sheet date.

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

- (a) the Group will continue to seek the creditors’ and the Loan Providers’ ongoing support to the Group;
- (b) the Group is endeavouring to recover the amount due from Furama Hotel Enterprises Limited, together with the related interest income thereon (see note 20); and
- (c) the Group has been taking action to tighten cost controls over various general and administrative expenses and to explore profitable business opportunities.

# Notes to Financial Statements

31st December, 2003

## 2. BASIS OF PRESENTATION (continued)

In the opinion of the directors, in light of the measures taken to date and the expected outcome of other measures in progress as planned, including the attainment of profitable and positive cash flow operations, the Group will have sufficient working capital and cash resources to meet its financial obligations in full as they fall due in the foreseeable future. On this basis, the directors of the Company consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Company and the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

## 3. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

Hong Kong Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes” is effective for the first time for the current year’s financial statements. It 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).

This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 12 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

# Notes to Financial Statements

31st December, 2003

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

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

### Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

# Notes to Financial Statements

31st December, 2003

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

### Jointly-controlled entities (continued)

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 ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. 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 impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

### 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 generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against the consolidated reserves, is included as part of the Group's interests in associates.

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

### Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 to 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

# Notes to Financial Statements

31st December, 2003

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

### Negative goodwill

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

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

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

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

### Impairment of assets

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

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

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

# Notes to Financial Statements

31st December, 2003

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

### Fixed assets and depreciation

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

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

Leasehold land	Over the unexpired lease terms
Buildings	2.5% — 5.0%
Leasehold improvements	Over the terms of the leases
Furniture, fixtures and equipment	20.0%
Broadcast operations and engineering equipment	10.0%
Motor vehicles	10.0% — 20.0%
Computers	10.0% — 20.0%

Construction in progress represents a building under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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

### Long term investments

Long term investments comprise non-trading investments in unlisted equity securities intended to be held for an identified long term purpose. Long term investments are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. Where the circumstances and events which led to the impairment in value 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 previously charged is credited to the profit and loss account to the extent of the amount previously charged.

# Notes to Financial Statements

31st December, 2003

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

### Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. 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.

### Self-produced programmes

Self-produced programmes are stated at cost less any impairment losses. Cost comprises direct expenditure and an attributed portion of direct production overheads. The relevant portion of the cost of self-produced programmes is charged to the profit and loss account in accordance with the number of episodes broadcast in the financial year.

### Purchased programme rights

Purchased programme rights, which represent entitlements under contracts to receive and broadcast programmes, are stated at cost less any impairment losses. The cost of purchased programme rights is charged to the profit and loss account upon the first broadcasting of the programmes and in accordance with the number of episodes broadcast in the financial year.

### Film rights

Film rights are certain rights to completed films acquired from outsiders and are stated at cost less accumulated amortisation and any impairment losses.

Film rights are amortised proportionately to the estimated projected revenues over their economic beneficial period subject to a maximum period of 10 years. Estimated projected revenues are reviewed on a film-by-film basis at a regular interval. Additional amortisation or impairment will be charged if future estimated projected revenues adversely differ from the previous estimation.

### 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 provide a constant periodic rate of charge over the lease terms.

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



# Notes to Financial Statements

31st December, 2003

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

### Revenue recognition

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

- (a) hotel management fee income, in the period in which such management services are rendered;
- (b) advertising agency fee income, in the period in which such advertising services are rendered;
- (c) programme distribution fee income is recognised when the master audio and visual materials have been delivered to the licensee for immediate exploitation of programmes;
- (d) turnover from entertainment events organised by the Group is recognised when the events are completed;
- (e) net income shared from entertainment events organised by other co-investors is recognised when the events are completed;
- (f) Internet maintenance service fee income is recognised when services are rendered;
- (g) television technical service fee income is recognised when services are rendered;
- (h) income from the sale of short term investments is recognised on the transaction date when the relevant contract is entered into;
- (i) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (j) artiste management fee income is recognised when the services are provided;
- (k) turnover from the sale of goods is recognised 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;
- (l) for films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment of film rights for a fixed fee or non-refundable guarantee under a non-cancellable contract which permits the licensee to exploit those rights freely is made and the Group has no remaining obligations to perform, revenue is recognised when the film materials have been delivered to the licensees. Revenue recognised is limited to the amount of consideration received and subject to due allowance for contingencies; and
- (m) for films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, revenue is recognised over the licence period and when the films are available for showing or telecast.

# Notes to Financial Statements

31st December, 2003

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

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

### **Employee benefits**

#### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### **Foreign currencies**

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

On consolidation, the financial statements of overseas subsidiaries, associates and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the Group's accumulated losses.

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

# Notes to Financial Statements

31st December, 2003

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

### Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

# Notes to Financial Statements

31st December, 2003

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

### 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 and cash equivalents

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

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

## 5. SEGMENT INFORMATION

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

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

- (a) the hotel management segment engaged in the provision of management services to hotels (discontinued during the year);
- (b) the media and entertainment segment engages in investment in and the production of entertainment events, the provision of artiste management services, the operation of websites and the licensing of motion pictures and films;
- (c) the satellite television segment engages in the television broadcasting business, including the production of television programmes and the operation of a satellite television channel;
- (d) the advertising agency segment engages in the provision of advertising agency services, primarily in respect of advertisements on television and in newspapers; and
- (e) the corporate and other segment comprises the debt advanced to FHEL (as defined in note 20) of approximately HK\$1,500,040,000, further details of which are included in note 20 to the financial statements, sale of cosmetic products, together with corporate income and expense items.

# Notes to Financial Statements

31st December, 2003

## 5. SEGMENT INFORMATION (continued)

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

There were no intersegment sales and transfers during the year (2002: Nil).

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

#### Group

	(Discontinued operations)		Media and entertainment		Satellite television		Advertising agency		Corporate and other		Consolidated	
	Hotel management 2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:												
Sales to external customers	3,470	7,426	21,430	113,908	2,355	793	64,291	54,151	6,258	—	97,804	176,278
Other revenue	—	1,081	1,092	2,006	23	15	643	259	46	75,896	1,804	79,257
<b>Total</b>	<b>3,470</b>	<b>8,507</b>	<b>22,522</b>	<b>115,914</b>	<b>2,378</b>	<b>808</b>	<b>64,934</b>	<b>54,410</b>	<b>6,304</b>	<b>75,896</b>	<b>99,608</b>	<b>255,535</b>
Segment results	<b>2,985</b>	<b>7,870</b>	<b>1,563</b>	<b>(25,545)</b>	<b>(67,068)</b>	<b>(60,660)</b>	<b>214</b>	<b>(284)</b>	<b>(47,687)</b>	<b>52,731</b>	<b>(109,993)</b>	<b>(25,888)</b>
Unallocated interest and other gains											136	3,535
Gain on disposal of discontinued operations	10,361	—									10,361	—
Gain on disposal of interests in associates			30,288	532					1,635	—	31,923	532
Gain/(loss) on disposal of short term investments									14	(285)	14	(285)
Unrealised holding gain/(loss) on short term investments									36	(291)	36	(291)
Loss on disposal of a long term investment									—	(501)	—	(501)
Impairment of a long term investment			—	(4,681)							—	(4,681)
Loss from operating activities											(67,523)	(27,579)
Finance costs											(4,296)	(1,708)
Amortisation of goodwill on acquisition of an associate			(2,214)	—							(2,214)	—
Provisions for amounts due from jointly-controlled entities			(1,050)	(6,530)							(1,050)	(6,530)
Share of profits and losses of:												
Associates			(12,520)	(31,530)							(12,520)	(31,530)
Jointly-controlled entities			(1,972)	(2,113)							(1,972)	(2,113)
Loss before tax											(89,575)	(69,460)
Tax											(3,129)	985
Loss before minority interests											(92,704)	(68,475)
Minority interests											(3)	(324)
Net loss attributable to shareholders											(92,707)	(68,799)
Segment assets	—	2,418	215,358	161,368	145,184	151,063	24,344	13,296	1,521,155	1,523,449	1,906,041	1,851,594
Interests in associates	—	—	113,053	48,903	—	—	—	—	—	—	113,053	48,903
Interests in jointly-controlled entities	—	—	1,463	779	—	—	—	—	—	—	1,463	779
Unallocated assets	—	—	—	—	—	—	—	—	—	—	98	2,683
<b>Total assets</b>											<b>2,020,655</b>	<b>1,903,959</b>
Segment liabilities	—	500	26,684	9,587	14,109	3,215	21,464	14,746	8,121	5,421	70,378	33,469
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	171,235	48,278
<b>Total liabilities</b>											<b>241,613</b>	<b>81,747</b>
Other segment information:												
Depreciation	—	—	1,967	2,404	10,455	10,947	32	24	303	453	12,757	13,828
Amortisation of goodwill on acquisition of an associate	—	—	2,214	—	—	—	—	—	—	—	2,214	—
Amortisation of film rights	—	—	2,591	—	—	—	—	—	—	—	2,591	—
Amortisation of self-produced and purchased programmes	—	—	666	5,934	—	—	—	—	—	—	666	5,934
Impairment of fixed assets	—	—	—	—	21,011	—	—	—	—	—	21,011	—
Provision for bad and doubtful debts	—	—	112	200	—	30	—	—	—	1,319	112	1,549
Write-back of provisions for bad and doubtful debts	—	—	—	—	—	—	—	—	1,081	9,287	1,081	9,287
Provision for an amount due from an associate	—	—	—	2,702	—	—	—	—	—	—	—	2,702
Impairment loss of self-produced and purchased programmes	—	—	—	6,661	—	—	—	—	—	—	—	6,661
Capital expenditure	—	—	51	243	23,688	25,533	27	113	130	194	23,896	26,083

## Notes to Financial Statements

31st December, 2003

## 5. SEGMENT INFORMATION (continued)

## (b) Geographical segments

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

## Group

	Hong Kong		PRC-Mainland (including Macau)		Other areas		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	<u>33,699</u>	<u>127,171</u>	<u>60,635</u>	<u>41,681</u>	<u>3,470</u>	<u>7,426</u>	<u>97,804</u>	<u>176,278</u>
Other segment information:								
Segment assets	1,936,149	1,853,323	84,018	45,127	390	2,826	2,020,557	1,901,276
Unallocated assets							<u>98</u>	<u>2,683</u>
Total assets							<u>2,020,655</u>	<u>1,903,959</u>
Capital expenditure	<u>141</u>	<u>3,311</u>	<u>23,755</u>	<u>22,772</u>	<u>—</u>	<u>—</u>	<u>23,896</u>	<u>26,083</u>

# Notes to Financial Statements

31st December, 2003

## 6. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Rental expense paid to a related company (a)	(i)	—	2,525
Hotel management, royalty and marketing fees received from hotels held by related companies (a)	(ii)	3,470	7,426
Hotel management fees paid to a related company (a)	(iii)	783	1,353
Interest income on an amount due from Furama Hotel Enterprises Limited (note 20)		—	75,002
Interest income from an associate	(iv)	—	3,293
Programme production costs paid to a jointly-controlled entity	(v)	—	26,754
Purchases of film rights from an associate	(vi)	124,000	107,220
Distribution and licence fee income from an associate	(vii)	9,269	8,048
Advertising income from a related company (a)	(viii)	—	1,800
Concert production fee paid to a jointly-controlled entity	(ix)	—	8,613

(a) The related companies are subsidiaries of Lai Sun Development Company Limited (“LSD”), which is a substantial shareholder holding a 42.54% equity interest in the Company at the balance sheet date.

# Notes to Financial Statements

31st December, 2003

## 6. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The rental was charged with reference to market rates.
- (ii) The hotel management, royalty and marketing fees are charged to the hotels at certain percentages ranging from 3% to 5% (2002: 1% to 10%) on the gross revenue or operating profits of the hotels.
- (iii) The hotel management fees paid are charged at certain percentages ranging from 1.5% to 1.8% (2002: 1.5% to 1.8%) on the gross revenue of the hotels.
- (iv) The interest income from an associate was charged at 1% above the prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited (the "HSBC prime rate") per annum or at the HSBC prime rate per annum.
- (v) The programme production costs were charged based on the actual cost incurred plus a margin as agreed.
- (vi) The film rights were purchased from an associate of the Group pursuant to the terms as stipulated in the sale and purchase agreement.
- (vii) The distribution and licence fee income was charged to an associate based on contract terms.
- (viii) The advertising income was charged to a related company with reference to the market rates.
- (ix) The concert production fee paid to a jointly-controlled entity was based on contract terms.

## 7. DISCONTINUED OPERATIONS

As detailed in note 17, GHRV (as defined in note 17), a wholly-owned subsidiary of the Group, was disposed of during the year.

The Group's business of the provision of management services to hotels (the "hotel management operations") was conducted through GHRV and therefore the Group's hotel management operations was discontinued on its disposal, which resulted in a gain on disposal of HK\$10,361,000. The directors consider that the disposal of GHRV is to divest the Group's non-core business.

The turnover, other revenue, expenses and results of the hotel management operations for the two years ended 31st December, 2003 were as follows:

	2003 HK\$'000	2002 HK\$'000
TURNOVER	3,470	7,426
Cost of sales	(783)	(1,362)
Gross profit	2,687	6,064
Other revenue	—	1,081
Administrative expenses	(264)	(411)
Other operating gains, net	562	1,136
Gain on disposal of discontinued operations (note 34(c))	10,361	—
PROFIT BEFORE TAX	13,346	7,870
Tax	—	—
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	13,346	7,870



# Notes to Financial Statements

31st December, 2003

## 7. DISCONTINUED OPERATIONS (continued)

The carrying amounts in the Group's consolidated balance sheet of the total assets and liabilities relating to the discontinued operations as at 31st December, were as follows:

	2003 HK\$'000	2002 HK\$'000
Total assets	—	2,418
Total liabilities	—	(500)
Net assets	—	1,918

## 8. TURNOVER AND REVENUE

An analysis of turnover and other revenue is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
<b>Turnover</b>		
Advertising income	64,291	54,151
Hotel management fee income	3,470	7,426
Distribution and licence fee income	13,784	18,324
Entertainment event income	4,736	94,277
Internet maintenance service fee income	909	1,307
Television technical service income	1,576	793
Sale of cosmetic products	6,258	—
Artiste management fee income	2,780	—
	<u>97,804</u>	<u>176,278</u>
<b>Other revenue</b>		
Interest income	136	78,536
Others	1,804	4,256
	<u>1,940</u>	<u>82,792</u>
	<u>99,744</u>	<u>259,070</u>

## Notes to Financial Statements

31st December, 2003

## 9. LOSS FROM OPERATING ACTIVITIES

	Notes	Group 2003 HK\$'000	2002 HK\$'000
The Group's loss from operating activities is arrived at after charging/(crediting):			
Cost of film rights and license rights		12,082	6,429
Cost of self-produced and purchased programmes		27,300	50,813
Cost of services provided		66,139	146,879
Cost of inventories sold		6,769	—
Total cost of sales		<u>112,290</u>	<u>204,121</u>
Staff costs:			
Wages and salaries ** (including directors' emoluments — see note 11)		61,932	63,992
Pension contributions		1,478	1,058
		<u>63,410</u>	<u>65,050</u>
Auditors' remuneration		800	900
Depreciation **	15	12,757	13,828
Minimum lease payments under operating leases in respect of land and buildings incurred for:			
Entertainment events #		248	4,374
Others		3,047	3,184
Contingent rents incurred for entertainment events #		780	11,860
Total operating lease payments		<u>4,075</u>	<u>19,418</u>
Impairment of a long term investment*		—	4,681
Loss on disposal of a long term investment *		—	501
Impairment loss of self-produced and purchased programmes*		—	6,661
Amortisation of self-produced and purchased programmes***		666	5,934
Amortisation of film rights ***	21	2,591	—
Provision for an amount due from an associate *		—	2,702
Unrealised holding loss/(gain) on short term investments *		(36)	291
Loss/(gain) on disposal of short term investments		(14)	285
Provision for bad and doubtful debts *		112	1,549
Loss on disposal of fixed assets *		196	224
Impairment of fixed assets *	15	21,011	—
Share of net income from entertainment events organised by other co-investors *		(551)	(2,245)
Write-back of provisions for bad and doubtful debts *		(1,081)	(9,287)
Gain on recovery from the Holdback Funds and Earnout Funds in connection with the litigation relating to the disposal of Delta Hotels Limited *	35(a)	—	(12,096)

\* These items are included in the "Other operating gains/(expenses), net" as shown on the face of the consolidated profit and loss account.

\*\* Wages and salaries amounting to HK\$8,810,000 (2002: HK\$10,366,000) and a depreciation charge of HK\$6,997,000 (2002: HK\$4,832,000) are also included in the amount of the cost of sales.

\*\*\* These items are included in the cost of sales.

# These items are included in the cost of sales. The contingent rents are charged based on a certain percentage of the gross ticket proceeds collected in respect of the entertainment events.

# Notes to Financial Statements

31st December, 2003

## 10. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within five years	2,396	968
Interest on loans from directors and a related company	1,513	349
Interest on finance leases	12	16
Refinancing charges of bank loans	375	375
	<u>4,296</u>	<u>1,708</u>

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	480	480
Other emoluments:		
Basic salaries, bonuses, housing and other allowances, and benefits in kind	15,571	22,994
Pension scheme contributions	202	215
	<u>16,253</u>	<u>23,689</u>

Directors' fees of HK\$480,000 (2002: HK\$480,000) were paid to two (2002: two) independent non-executive directors during the year.

## Notes to Financial Statements

31st December, 2003

**11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)****(a) Directors' emoluments (continued)**

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

	Group	
	2003	2002
Nil — HK\$1,000,000	10	10
HK\$1,000,001 — HK\$1,500,000	1	2
HK\$2,000,001 — HK\$2,500,000	1	1
HK\$3,500,001 — HK\$4,000,000	—	1
HK\$10,500,001 — HK\$11,000,000	1	—
HK\$12,000,001 — HK\$12,500,000	—	1
	13	15

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

**(b) Employees' emoluments**

The five highest paid employees during the year included two (2002: three) directors, the details of whose emoluments are set out above. Details of the remuneration of the remaining three (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
Salaries, allowances and benefits in kind	6,180	3,470
Pension scheme contributions	114	50
	6,294	3,520

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

	Group	
	2003	2002
HK\$1,500,001 — HK\$2,000,000	2	2
HK\$2,000,001 — HK\$2,500,000	1	—
	3	2

# Notes to Financial Statements

31st December, 2003

## 12. TAX

No provision for Hong Kong profits tax has been provided as there were no assessable profits generated during the year. Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong in the prior year. During the year, Hong Kong profits tax rate was increased from 16% to 17.5% and became effective from the year of assessment 2003/2004, and so is applicable to the whole of the year ended 31st December, 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
Provision for tax for the year:		
Hong Kong	—	4,723
Elsewhere	50	162
Deferred	—	661
	<hr/>	<hr/>
	50	5,546
	<hr/>	<hr/>
Prior years' under/(over)provisions:		
Hong Kong	(24)	(6,892)
Elsewhere	2	(662)
	<hr/>	<hr/>
	(22)	(7,554)
	<hr/>	<hr/>
Share of tax attributable to:		
Associates	3,073	1,023
Jointly-controlled entities	28	—
	<hr/>	<hr/>
	3,101	1,023
	<hr/>	<hr/>
Total tax charge/(credit) for the year	3,129	(985)
	<hr/>	<hr/>

# Notes to Financial Statements

31st December, 2003

## 12. TAX (continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries, associates and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(89,575)</u>		<u>(69,460)</u>	
Tax at the statutory tax rate	(15,676)	(17.5)	(11,114)	(16.0)
Adjustments in respect of current tax				
of previous periods	(22)	0.0	(7,554)	(10.9)
Income not subject to tax	(8,626)	(9.6)	(5,796)	(8.3)
Expenses not deductible for tax	20,503	22.9	12,459	17.9
Estimated tax losses utilised				
from previous periods	(1,989)	(2.2)	(33)	0.0
Estimated tax losses not recognised	<u>8,939</u>	<u>9.9</u>	<u>11,053</u>	<u>15.9</u>
Tax charge/(credit) at the Group's effective rate	<u>3,129</u>	<u>3.5</u>	<u>(985)</u>	<u>(1.4)</u>

No deferred tax has been provided as the Group and the Company did not have any significant temporary differences which gave rise to a deferred tax asset or liability at the balance sheet date for both years presented.

The Group has tax losses arising in Hong Kong of HK\$609,101,000 (2002: HK\$563,538,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31st December, 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entities as the Group has no liability to additional tax should such amounts be remitted.

## 13. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31st December, 2003 dealt with in the financial statements of the Company was HK\$99,572,000 (2002: HK\$136,185,000) (note 33).

# Notes to Financial Statements

31st December, 2003

## 14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$92,707,000 (2002: HK\$68,799,000), and the weighted average of 623,787,668 (2002: 571,184,927) ordinary shares in issue throughout the year.

Diluted loss per share amounts for the years ended 31st December, 2003 and 2002 have not been shown as no diluting events existed during these years.

## 15. FIXED ASSETS

### Group

	31st December, 2002 HK\$'000	Additions HK\$'000	Arising from acquisition of subsidiaries HK\$'000	Disposals HK\$'000	Impairment HK\$'000	Exchange realignment HK\$'000	31st December, 2003 HK\$'000
Cost:							
Construction in progress	34,661	23,674	—	—	—	—	58,335
Land and buildings	75,000	—	—	—	—	—	75,000
Leasehold improvements	26,670	68	—	—	—	—	26,738
Furniture, fixtures and equipment	3,743	58	482	(207)	—	(3)	4,073
Broadcast operations and engineering equipment	24,820	—	—	—	—	—	24,820
Motor vehicles	276	—	601	—	—	(2)	875
Computers	14,042	96	168	—	—	(2)	14,304
	<u>179,212</u>	<u>23,896</u>	<u>1,251</u>	<u>(207)</u>	<u>—</u>	<u>(7)</u>	<u>204,145</u>
Accumulated depreciation and impairment:							
Land and buildings	2,903	1,935	—	—	—	—	4,838
Leasehold improvements	9,931	5,049	—	—	11,531	—	26,511
Furniture, fixtures and equipment	1,783	555	244	(11)	906	(1)	3,476
Broadcast operations and engineering equipment	3,668	2,481	—	—	4,596	—	10,745
Motor vehicles	65	55	541	—	—	(2)	659
Computers	6,862	2,682	143	—	3,978	—	13,665
	<u>25,212</u>	<u>12,757</u>	<u>928</u>	<u>(11)</u>	<u>21,011</u>	<u>(3)</u>	<u>59,894</u>
Net book value	<u>154,000</u>						<u>144,251</u>

# Notes to Financial Statements

31st December, 2003

## 15. FIXED ASSETS (continued)

The Group's land and buildings are situated in Hong Kong, held under medium term leases and were pledged to secure general banking facilities granted to the Group (note 28).

The net book value of assets held under finance leases included in the total amount of furniture, fixtures and equipment as at 31st December, 2003, amounted to HK\$78,000 (2002: HK\$110,000).

The cost of the construction in progress comprises the premium paid for land registered in Macau under a medium term lease and expenditure incurred for the development of a building constructed thereon.

The operation of the Group's satellite television business has incurred losses since 2000. The directors have evaluated the business activity and future performance of the satellite television business and considered that the fixed assets used in this business were impaired. Accordingly, an impairment loss of the fixed assets of HK\$21,011,000 was charged to the consolidated profit and loss account in the current year. The impairment loss was determined by the directors of the Group with reference to the net selling price of the fixed assets obtained from the market as at the balance sheet date.

## 16. LONG TERM INVESTMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	4,681	4,681
Provisions for impairment	<u>(4,681)</u>	<u>(4,681)</u>
	<u>—</u>	<u>—</u>

## 17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	997,700	1,092,730
Amounts due from subsidiaries	<u>2,658,517</u>	<u>2,727,843</u>
	3,656,217	3,820,573
Provisions for impairment	<u>(1,809,665)</u>	<u>(2,082,814)</u>
	<u>1,846,552</u>	<u>1,737,759</u>



# Notes to Financial Statements

31st December, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the prior year, certain amounts due from subsidiaries were interest-bearing as set out below:

- (i) an amount of HK\$2,548,000, which bore interest at 15% per annum;
- (ii) an amount of HK\$11,000,000, which bore interest at 1% above the HSBC prime rate per annum; and
- (iii) an amount of HK\$1,500,040,000, which bore interest at 1% per annum.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective % of capital held by		Principal activities
			Company	Group	
East Asia Entertainment Limited	Hong Kong	HK\$2 Ordinary	—	100	Entertainment activity production
East Asia Satellite Television Limited	Hong Kong	HK\$2 Ordinary	—	100	Programme production, distribution and broadcasting
East Asia-Televisão Por Satélite, Limitada*	Macau	MOP\$25,000 Quota	—	100	Programme production, distribution and broadcasting
Glynhill International Limited	Hong Kong	HK\$912,623,351 Ordinary	100	100	Investment holding
Golden Pool Enterprise Limited	Hong Kong	HK\$2 Ordinary	—	100	Investment holding
Guangzhou Beautifirm Cosmetic Limited* ##	Mainland China	US\$1,260,000#	—	100	Sale of cosmetic products

## Notes to Financial Statements

31st December, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital and class of shares held	Effective % of capital held by		Principal activities
			Company	Group	
Kaleidoscope International Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	100	100	Property holding
Lai Sun Technology Company Limited	Hong Kong	HK\$2 Ordinary	—	100	Provision of Internet maintenance services
Rich & Famous Talent Management Group Limited	Hong Kong	HK\$100 Ordinary	—	75	Provision of artiste management services
Skymaster International Inc.	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
Vision Advertising (HK) Limited	Hong Kong	HK\$2 Ordinary	—	100	Provision of advertising agency services and investment holding
Vision Communications (GZ) Limited* ###	Mainland China	HK\$3,000,000#	—	90	Provision of advertising agency services

# The amount stated represents the paid-up capital in the People's Republic of China.

## This subsidiary is a wholly-foreign owned enterprise.

### This subsidiary is a co-operative joint venture.

\* Audited by public accountants other than Ernst & Young.

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

# Notes to Financial Statements

31st December, 2003

## 17. INTERESTS IN SUBSIDIARIES (continued)

Notes:

- (a) During the year, the Group entered into the following connected transactions with the related parties of which are subject to the disclosure requirements under Chapter 14 of the Listing Rules:
- (i) On 8th November, 2002, the Company and LSD entered into an agreement pursuant to which the Company agreed to sell and LSD agreed to purchase, the entire issued share capital of Houseman International Limited ("HIL"), a wholly-owned subsidiary of the Company which holds a 50% equity interest in HKATV.com Limited, for a consideration of HK\$46,080,000 (the "Consideration"). On the same date, LSD entered into a conditional agreement (the "DGI Agreement") with Dragon Goodwill International Limited ("DGI") to sell to DGI the entire share capital of HIL together with LSD's 32.75% interest in Asia Television Limited ("ATV") (the "ATV Transaction").
- On 14th May, 2003, the Company and LSD entered into a supplemental agreement pursuant to which the Consideration was reduced to HK\$33,580,000. On the same date, LSD and DGI entered into a supplemental agreement pursuant to which the consideration for the ATV Transaction was also reduced. The above transactions were completed on 25th July, 2003 and the Group recorded a gain on disposal of an associate of HK\$30,288,000.
- (ii) On 26th September 2003, Delta Asia Limited ("DAL"), a wholly-owned subsidiary of the Company, and Furama Hotels and Resorts International Limited ("FHRI"), a wholly-owned subsidiary of LSD, entered into an agreement pursuant to which DAL agreed to sell and FHRI agreed to purchase, the entire issued share capital of Glynhill Hotels and Resorts (Vietnam) Pte Ltd ("GHRV"), a wholly-owned subsidiary of DAL which holds the hotel management rights of the Caravelle Hotel, for a consideration of HK\$10,300,000. The transaction was completed on 31st October, 2003. Further details of this disposal are included in note 34(c) to the financial statements.
- (b) On 15th May, 2003, the Company and Ducburg Limited ("Ducburg"), a subsidiary of LSD, entered into an agreement pursuant to which the Company agreed to purchase and Ducburg agreed to sell, the entire issued share capital of Biu Kei Investment Limited, for a consideration of HK\$270,000. Further details of this acquisition are included in note 34(b) to the financial statements.

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net liabilities	(6,771)	(4,771)
Amounts due from jointly-controlled entities	<u>15,814</u>	<u>12,080</u>
	9,043	7,309
Provisions for amounts due from jointly-controlled entities	<u>(7,580)</u>	<u>(6,530)</u>
	<u>1,463</u>	<u>779</u>

Except for an amount of HK\$13,129,000 (2002: HK\$11,000,000) which is interest-bearing at 1% above the HSBC prime rate per annum, the amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

# Notes to Financial Statements

31st December, 2003

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of jointly-controlled entities are as follows:

Name of Company	Business structure	Place of incorporation/ operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
The Artiste Campus International Limited	Corporate	Hong Kong	50%	50%	50%	Provision of agency services to artistes
Much Entertainment Limited	Corporate	Hong Kong	50%	50%	50%	Provision of concert production services
Good Friends Limited ("Good Friends")	Corporate	Hong Kong	50%	50%	Note	Entertainment activity production

The interests in jointly-controlled entities are indirectly held by the Company.

Note: The profit sharing ratio for each entertainment activity operated by Good Friends, ranging from 30% to 60%, is stated in the joint venture agreement.

## 19. INTERESTS IN ASSOCIATES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Share of net assets	92,280	36,708	—	—
Goodwill on acquisition, net of amortisation	19,926	—	—	—
	<u>112,206</u>	<u>36,708</u>	<u>—</u>	<u>—</u>
Amounts due from associates, net of provisions	847	3,388	—	1,012
Loans to associates, net of provisions	—	8,807	—	3,807
	<u>113,053</u>	<u>48,903</u>	<u>—</u>	<u>4,819</u>

# Notes to Financial Statements

31st December, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

The balances with associates, including loans to associates, are unsecured, interest-free and have no fixed terms of repayment. In the prior year, (i) an amount of HK\$807,000 bore interest at 1% above the HSBC prime rate per annum and (ii) HK\$3,000,000 bore interest at the HSBC prime rate per annum.

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

The Consideration was agreed based on the assessment of the financial performance of MAH as reflected in its profits in the past track records and its profit potential in the future, and the par and trading values of the shares of the Company.

Details of the principal associate are as follows:

Name of company	Business structure	Place of incorporation/ operations	Class of shares held	% of equity attributable to the Group	Principal activities
Media Asia Holdings Limited	Corporate	British Virgin Islands/ Hong Kong	Ordinary	49.77%	Film production, distribution and investment holding

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

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

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

# Notes to Financial Statements

31st December, 2003

## 20. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED (“FHEL”) (continued)

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

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

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

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

- (a) a limited recourse second charge over 6,500 shares of HK\$1.00 each in the issued share capital of Diamond String Limited (which owns 100% of the equity interest of the Ritz-Carlton Hong Kong Hotel) beneficially owned by LSD; and
- (b) a negative pledge (the “Negative Pledge”) granted by LSD, pursuant to which LSD agreed not to create additional security over certain major properties of the LSD group without the prior consent of the Parties. The Negative Pledge lapsed in early 2003 according to the terms of the covenants and undertakings given by LSD.

# Notes to Financial Statements

31st December, 2003

## 20. DUE FROM FURAMA HOTEL ENTERPRISES LIMITED (“FHEL”) (continued)

As at 31st December, 2003, the Debt due by FHEL remained outstanding and overdue. The directors have discussed the repayment of the Debt and the interest terms as from 1st January, 2003 with the management of FHEL and LSD, and obtained an understanding that LSD is currently working closely with its legal and financial advisors to formulate a plan for the settlement and/or repayment of the Debt due to the Group, the Exchangeable Bondholders and the Convertible Bondholders, and certain other borrowings. Pending the outcome of the LSD debt restructuring programme, the Group is uncertain as to the extent of the recovery of the Debt. The directors of the Company consider that the recoverable amount of the Debt is currently uncertain and, in the absence of reliable information, they are unable to estimate the amount of any specific provision against such balance at the current time. In light thereof, no interest income in respect of the Debt has been recognised in the current year because the directors of the Company are unable to estimate the amount of such interest income that may eventually be realised.

## 21. FILM RIGHTS

	Group HK\$'000
<hr/>	
Cost:	
At 1st January, 2003	113,109
Additions	87,137
	<hr/>
At 31st December, 2003	200,246
	<hr/>
Accumulated amortisation:	
At 1st January, 2003	—
Provided during the year	2,591
	<hr/>
At 31st December, 2003	2,591
	<hr/>
Net book value:	
At 31st December, 2003	197,655
	<hr/>
At 31st December, 2002	113,109
	<hr/>

On 24th December, 2001, the Group entered into various licence agreements (the “Agreements”) with MAH and its subsidiaries (the “MAH Group”), to license from the MAH Group certain television rights (the “TV Rights”), in the People’s Republic of China, including Hong Kong and Macau, for a total of 110 films for a period of 7.5 years, commencing from 24th December, 2001. Under the Agreements, the Group has the right to license all or any of its TV Rights to third parties. The cost of the TV Rights to the Group, after eliminating the Group’s share of the unrealised gain recorded in the MAH Group in respect of this transaction, amounted to HK\$37,366,000.

# Notes to Financial Statements

31st December, 2003

## 21. FILM RIGHTS (continued)

On 21st December, 2002, the Group entered into various supplemental agreements (the “Supplemental Agreements”) with the MAH Group to extend the terms of the TV Rights for an additional 3 years. Upon entering into the Supplemental Agreements, the Group obtained the offer to acquire, and on 24th December, 2002 executed various deeds of assignments to effect the acquisition, from the MAH Group of all rights, interests in perpetuity to 96 films. Out of these said 96 films, the TV Rights of 90 films had already been licensed to the Group in 2001 and 2002 as mentioned above. After eliminating the Group’s share of unrealised gain recorded in the MAH Group’s accounts in respect of the above transactions, the cost to the Group to extend the terms of the TV Rights for 3 years and to acquire the 96 film rights as aforementioned amounted to HK\$75,743,000.

During the year on 30th August, 2003, the Group entered into a deed of assignment with the MAH Group to acquire the 31 film rights (7 of which are jointly-owned by the Group and other investors), out of which the TV Rights of 18 films had already been licensed to the Group in 2001 and 2002 as mentioned above. After eliminating the Group’s share of unrealised gain recorded in the MAH Group’s accounts in respect of this transaction, the cost to the Group to acquire the 31 film rights as aforementioned amounted to HK\$87,137,000.

As at 31st December, 2003, the film rights of the Group represented all rights, titles and interests in 127 films (the “127 Film Rights”) with an aggregate carrying value of HK\$197,541,000 and the TV Rights to another 2 films for a period of 10.5 years (the “2 TV Rights”) of an aggregate carrying value of HK\$114,000. The directors engaged Astoria Films Distribution Limited, an independent film distributor, to perform a valuation (the “Valuation”) of the 127 Film Rights as at 31st December, 2003. Having regard to the Valuation, which indicated that the fair value of the Group’s 127 Film Rights as at 31st December, 2003 was above their cost as stated in the Group’s financial statements and having regard to the current market conditions, the directors are of the opinion that there was no impairment in the Group’s film rights as at 31st December, 2003.

## 22. SHORT TERM INVESTMENTS

	Group	
	2003	2002
	HK\$	HK\$
Listed equity investments at market value:		
Hong Kong	83	46
Elsewhere	—	89
	83	135

## 23. LOAN RECEIVABLE

The loan represented an advance to an independent third party, which was secured by certain equity interests held by the borrower, bore interest at a rate of 15% per annum and was repaid during the year.



# Notes to Financial Statements

31st December, 2003

## 24. DEBTORS AND DEPOSITS

Trading terms with customers are largely on credit. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. An aged analysis of the trade debtors as at 31st December, 2003 is as follows:

	Group	
	2003	2002
	HK\$	HK\$
<hr/>		
Trade debtors:		
Less than 30 days	8,220	18,153
31 — 60 days	3,548	2,918
61 — 90 days	126	52
Over 90 days	<u>7,648</u>	<u>9,355</u>
	19,542	30,478
Other debtors and deposits	<u>18,524</u>	<u>29,868</u>
	<u>38,066</u>	<u>60,346</u>

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

Included in trade debtors is an amount of HK\$1,384,000 (2002: HK\$3,050,000) due from the MAH Group arising from the ordinary course of business of the Group.

As at 31st December, 2002, included in trade debtors was an amount of HK\$1,800,000 due from a subsidiary of LSD arising from the ordinary course of business of the Group.

## Notes to Financial Statements

31st December, 2003

## 25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	11,510	11,467	261	115
Time deposits	10,940	7,259	—	—
	<u>22,450</u>	<u>18,726</u>	<u>261</u>	<u>115</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$8,015,000 (2002: HK\$2,315,000). The RMB is not freely convertible into other currencies. However, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 26. CREDITORS AND ACCRUALS

An aged analysis of the trade creditors as at 31st December, 2003 is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade creditors:		
Less than 30 days	5,859	4,808
31 — 60 days	4,481	2,992
61 — 90 days	2,087	398
Over 90 days	<u>35,976</u>	<u>6,277</u>
	48,403	14,475
Other creditors and accruals	<u>21,975</u>	<u>19,620</u>
	<u>70,378</u>	<u>34,095</u>

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

Included in trade creditors aged over 90 days is an amount of HK\$24,000,000 (2002: Nil) due to the MAH Group arising from the ordinary course of business of the Group.

# Notes to Financial Statements

31st December, 2003

## 27. FINANCE LEASE PAYABLES

The Group leases certain of its furniture, fixtures and equipment. These leases are classified as finance leases and have remaining lease terms of approximately two years.

At 31st December, 2003, the total future minimum lease payments under finance leases and their present values, were as follows:

### Group

	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	44	44	35	31
In the second year	44	44	41	35
In the third to fifth years, inclusive	<u>1</u>	<u>44</u>	<u>1</u>	<u>42</u>
Total minimum finance lease payments	89	132	<u>77</u>	<u>108</u>
Future finance charges	<u>(12)</u>	<u>(24)</u>		
Total net finance lease payables	77	108		
Portion classified as current liabilities	<u>(35)</u>	<u>(31)</u>		
Long term portion	<u>42</u>	<u>77</u>		

# Notes to Financial Statements

31st December, 2003

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group and Company	
	2003	2002
	HK\$'000	HK\$'000
Secured bank loans	24,000	25,000
Unsecured other borrowings	45,200	—
	<u>69,200</u>	<u>25,000</u>
Bank loans repayable:		
Within one year	19,000	25,000
In the second year	5,000	—
	<u>24,000</u>	<u>25,000</u>
Other loans repayable:		
Within one year	45,200	—
	<u>69,200</u>	<u>25,000</u>
Portion classified as current liabilities	<u>(64,200)</u>	<u>(25,000)</u>
Long term portion	<u>5,000</u>	<u>—</u>

The bank loan was secured by fixed charges over the Group's land and buildings with an aggregate net book value at the balance sheet date of approximately HK\$70,162,000 (2002: HK\$72,097,000).

Other borrowings are unsecured, bear interest at 1% per month and are repayable within one year.

## 29. LOAN FROM A RELATED COMPANY

The loan from the related company is unsecured, interest-free and has no fixed terms of repayment except for an amount of HK\$12,500,000 which bears interest at the HSBC prime rate per annum. A director of the Company is also a director of the related company.

## 30. LOANS FROM DIRECTORS

The balances are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK\$80,750,000 which bears interest at the HSBC prime rate per annum. Last year's balance was unsecured, bore interest at 1% per month and was repayable within one year.

# Notes to Financial Statements

31st December, 2003

## 31. SHARE CAPITAL

### Shares

	2003		2002	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.50 each	<u>2,000,000</u>	<u>1,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.50 each	<u>671,185</u>	<u>335,592</u>	<u>571,185</u>	<u>285,592</u>

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

	Number of ordinary shares '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st January, 2002, 31st December, 2002 and 1st January, 2003	571,185	285,592	2,888,633	3,174,225
Shares issued as consideration for the acquisition of additional interest in an associate (note 19)	100,000	50,000	—	50,000
Share issue expenses	<u>—</u>	<u>—</u>	<u>(364)</u>	<u>(364)</u>
At 31st December, 2003	<u>671,185</u>	<u>335,592</u>	<u>2,888,269</u>	<u>3,223,861</u>

### Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

# Notes to Financial Statements

31st December, 2003

## 32. SHARE OPTION SCHEME

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

No share options were outstanding as at 1st January, 2003 and 31st December, 2003. No share options were granted, exercised or cancelled or lapsed during the year. Consequent upon the amendments made to Chapter 17 of the Listing Rules which came into effect on 1st September, 2001, no further options may be granted under the Share Option Scheme unless such grant is made in compliance with the amended rules. As at the date of the annual report, no amended share option scheme has been adopted. The principal terms of the existing Share Option Scheme before amendment are:

- (a) The maximum number of shares of the Company (the “Shares”) in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme will not, when aggregated with any Shares subject to any other schemes, exceed such number of Shares as shall represent 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the Share Option Scheme.
- (b) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and, issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.
- (c) An offer of the grant of an option shall remain open for acceptance by the employee concerned for a period of 28 days from the date upon which it is made. An option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising the acceptance of the option duly signed by the grantee, together with a remittance in favour of the Company of HK\$10 by way of consideration for the grant thereof, is received by the Company. An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme and the conditions of the grant during the two-year period commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of the two-year period.
- (d) The subscription price shall be a price notified by the board of the Company to an employee being (i) not less than 80% of the average of the closing prices of the Shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as stated in the Stock Exchange’s quotation sheets for the five trading days immediately preceding the offer date; or (ii) the nominal value of the Shares, whichever is the higher.

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

# Notes to Financial Statements

31st December, 2003

## 33. RESERVES

### Group

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2002		2,888,633	891,289	(2,174,187)	1,605,735
Exchange realignment		—	—	(522)	(522)
Loss for the year		—	—	(68,799)	(68,799)
At 31st December, 2002 and 1st January, 2003		2,888,633	891,289	(2,243,508)	1,536,414
Share issue expenses	31	(364)	—	—	(364)
Exchange realignment		—	—	(17)	(17)
Release of exchange fluctuation reserve upon disposal of a subsidiary	34(c)	—	—	(72)	(72)
Loss for the year		—	—	(92,707)	(92,707)
At 31st December, 2003		2,888,269	891,289	(2,336,304)	1,443,254
Retained by:					
Company and subsidiaries		2,888,269	891,289	(2,279,918)	1,499,640
Jointly-controlled entities		—	—	(6,771)	(6,771)
Associates		—	—	(49,615)	(49,615)
At 31st December, 2003		2,888,269	891,289	(2,336,304)	1,443,254
Company and subsidiaries		2,888,633	891,289	(2,197,111)	1,582,811
Jointly-controlled entities		—	—	(4,771)	(4,771)
Associates		—	—	(41,626)	(41,626)
At 31st December, 2002		2,888,633	891,289	(2,243,508)	1,536,414

Included in the debit balance of accumulated losses as at 31st December, 2003 are accumulated credit balances in respect of exchange realignment amounting to HK\$19,917,000 (2002: HK\$20,006,000).

The Group's contributed surplus represents the excess value of the shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in November 1996.

## Notes to Financial Statements

31st December, 2003

## 33. RESERVES (continued)

## Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2002	2,888,633	845,455	(2,152,699)	1,581,389
Loss for the year	—	—	(136,185)	(136,185)
At 31st December, 2002 and 1st January, 2003	2,888,633	845,455	(2,288,884)	1,445,204
Share issue expenses (note 31)	(364)	—	—	(364)
Loss for the year	—	—	(99,572)	(99,572)
At 31st December, 2003	2,888,269	845,455	(2,388,456)	1,345,268

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation in November 1996, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), distributions may be made out of the contributed surplus in certain circumstances.

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## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Major non-cash transactions

- (i) On 23rd June, 2003, the Company issued a total of 100,000,002 ordinary shares of HK\$0.50 each as consideration for the acquisition of additional interest in an associate, as detailed in note 19.
- (ii) During the year, loans from directors of HK\$5,000,000 and a loan from a related company of HK\$12,500,000 were applied to settle part of the consideration for the film rights acquired from the MAH Group.
- (iii) During the year, the consideration for certain film rights acquired from the MAH Group by the Group of HK\$6,000,000 (2002: HK\$107,220,000) was settled through the loans due from an associate.

In respect of (ii) and (iii) above, details of the acquisition of film rights from the MAH Group are included in note 21 to the financial statements.



# Notes to Financial Statements

31st December, 2003

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

### (b) Acquisition of subsidiaries

	Note	2003 HK\$'000	2002 HK\$'000
Net assets acquired:			
Fixed assets	15	323	—
Cash and bank balances		727	—
Inventories		2,590	—
Debtors and deposits		222	—
Creditors and accruals		(3,592)	—
		<u>270</u>	<u>—</u>
Satisfied by:			
Cash		<u>270</u>	<u>—</u>

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(270)	—
Cash and bank balances acquired	<u>727</u>	<u>—</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>457</u>	<u>—</u>

The result of these subsidiaries acquired during the year had no significant impact on the Group's consolidated turnover or loss after tax for the year.

## Notes to Financial Statements

31st December, 2003

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT  
(continued)

## (c) Disposal of a subsidiary

	Notes	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:			
Release of exchange fluctuation reserve		(72)	—
		(72)	—
Gain on disposal of a subsidiary	7, 17	10,361	—
		10,289	—
Satisfied by:			
Cash consideration received, net of expenses		10,289	—

Details of the results of the subsidiary disposed of during the year are included in note 7 to the financial statements.

## 35. LITIGATION

- (a) In 1998, the Group disposed of its 50% interest in Delta Hotels Limited (“DHL”) to Canadian Pacific Hotels Corporation (the “Purchaser”). Under the terms of the sale and purchase agreement, C\$10 million of the sales proceeds was held in escrow (the “Holdback Funds”) pending the expiration of a warranty period.

The Purchaser also made an additional payment of C\$14.5 million that was held in escrow in respect of potential increases in the purchase price (the “Earnout Funds”).

The Purchaser made claims against the Holdback Funds in prior year. Subsequently, C\$8 million of the Holdback Funds was released to the Group and the other owner (the “Vendors”) during 2000. The Vendors commenced an action (the “Action”) against the Purchaser for the remaining C\$2 million and the Purchaser issued a counterclaim for the C\$2 million.

Subsequently, the Action was expanded to include a claim by the Vendors for C\$2.5 million of the Earnout Funds which had become disputed.

The Action had been settled in the prior year. Pursuant to the settlement, C\$950,000 is payable to the Group in relation to the Holdback Funds and C\$1,460,000 is payable to the Group in respect of the Earnout Funds. These amounts payable to the Group are for the principal only and are subject to adjustment for interest, commissions and withholding tax. In the prior year, C\$2,419,200 was credited to the consolidated profit and loss account for this estimated recovery of the Holdback Funds and Earnout Funds.

# Notes to Financial Statements

31st December, 2003

## 35. LITIGATION (continued)

- (a) During the year, the Group has received C\$1 million (approximately HK\$5,745,000) in respect of the Holdback Funds and Earnout Funds. The remaining balance is currently held in a further escrow account (the “Escrow Money”) for one year pending the expiry or resolution of other adverse claims. The directors consider that the Escrow Money will be received upon the expiry of the claims and no provision for doubtful debts is required.
- (b) In 2002, a Writ of Summons was issued in the Court of First Instance by East Asia Entertainment Limited (“EAE”), a wholly-owned subsidiary of the Company, and Active Union Limited (“AUL”), a 70% owned subsidiary of the Company, against Australasian Entertainment Corporation Limited (“AEC”), the minority shareholder of AUL and other related parties claiming, inter alia, loss and damages (amounts to be assessed) suffered in holding an entertainment show known as “Spectaculum”. AEC counterclaimed the unsettled expenditure incurred in the show in the sum of HK\$1,486,779. The action has been inactive during the year. AEC is currently under winding-up by creditors and the directors will continue to review the situation for any further action. The directors consider that the outstanding claim should have no material adverse effect on the Group and no provision for the claim is required at this stage.
- (c) In 2002, a Writ of Summons was issued in the Court of First Instance by Glynhill International Limited (“GIL”), a wholly-owned subsidiary of the Company, against two defendants, Belford Pacific Limited and Tse Wan Chung Philip (“Mr. Tse”), for a sum of US\$156,900 (approximately HK\$1,223,820) plus interest, being a loan (the “Loan”) owed by the two defendants and assigned by the original lender of the loan in favour of GIL. Full provision for the Loan was made in the Group’s financial statements in the prior years. During the year, the Group had obtained judgement in default of a defence against Mr. Tse and Mr. Tse has agreed to make periodic payments in settlement of the Loan. During the year, a total of HK\$84,000 was received from Mr. Tse and credited to the consolidated profit and loss account.

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## 36. COMMITMENTS

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital commitments contracted for	21,979	42,441	—	—

In addition, the Group has committed to invest in the development of a television city with a programme production centre (the “Project”) in Macau, the completion of which is scheduled in 2004 according to the agreement signed with the Macau government. The Group is currently in negotiation with the Macau government in respect of the terms and a delayed schedule of the Project. At 31st December, 2003, the authorised but not contracted for commitment in respect of this project amounted to HK\$225,891,000 (2002: HK\$225,891,000).

## Notes to Financial Statements

31st December, 2003

## 36. COMMITMENTS (continued)

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

At 31st December, 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	2,289	2,648	—	504
In the second to fifth years, inclusive	4,213	4,149	—	—
After five years	14,592	15,412	—	—
	<u>21,094</u>	<u>22,209</u>	<u>—</u>	<u>504</u>

- (c) The Group has entered into an agreement to lease a satellite channel at an annual licence fee of US\$800,000 for a term of twelve years. At 31st December, 2003, the total future minimum lease payments were as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	6,207	6,234	—	—
In the second to fifth years, inclusive	24,826	24,936	—	—
After five years	24,580	30,897	—	—
	<u>55,613</u>	<u>62,067</u>	<u>—</u>	<u>—</u>

# Notes to Financial Statements

31st December, 2003

## 37. CONTINGENT LIABILITIES

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee given to LSD in connection with the disposal of an associate to LSD ( <i>note</i> )	25,000	25,000	25,000	25,000
Guarantee given to a supplier in connection with credit facilities given to a subsidiary	—	—	2,000	2,000
	<u>25,000</u>	<u>25,000</u>	<u>27,000</u>	<u>27,000</u>

*Note:*

In connection with the Reorganisation Agreement described further in note 20, the Group disposed of its 45% interest in Guangzhou International Golf Club Ltd. ("GIGC") to LSD. GIGC owns and operates a golf club in Xiancun, Zhencheng, Guangdong Province, the People's Republic of China.

GIGC has not obtained valid land use rights for a total area of 1,430 mu (approximately 953,340 square metres) of the land (the "Land") on which the golf club is situated, which showed unencumbered ownership over such Land upon completion of the transaction. As a result, the Group entered into a Deed of Undertaking and Indemnity with LSD on 30th June, 2000.

The Group has undertaken to indemnify LSD or any of its subsidiaries against all losses and charges suffered or sustained, directly or indirectly, in connection with GIGC not having obtained the land use rights certificates, and all other relevant documents of the Land on which the golf club is situated or not showing unencumbered ownership over the Land. The aggregate liability of the Group under the indemnity created is limited to a maximum of HK\$25,000,000. As at the date of this report, the land use rights referred to above had not been obtained by GIGC.

## 38. POST BALANCE SHEET EVENT

On 3rd January, 2004, the Company and Soundfield Holdings Limited ("SHL") entered into an agreement (the "Agreement"). Pursuant to the Agreement, the Company agreed to purchase and SHL agreed to sell the entire issued share capital of Active Light Limited, which holds certain industrial buildings (the "Properties") in Hong Kong and recorded other loan of HK\$29,000,000 (the "Other Loan"), for a consideration of HK\$300,000. The fair value of the Properties was estimated by the directors at approximately HK\$29,000,000, which is the aggregate carrying amount of the Properties and the Properties were secured by a loan with the same amount. Certain of the Properties were subsequently disposed of for a consideration of HK\$12,000,000. The Group repaid HK\$8,000,000 of the Other Loan accordingly. No material gain was arisen from such disposal.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16th April, 2004.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at The Chater Room I & II, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road, Central, Hong Kong on Tuesday, 25th May, 2004 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31st December, 2003.
2. To re-elect Directors and to fix the Directors' remuneration.
3. To appoint Auditors and to authorise the Directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (A) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares of the Company, and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (A) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iii) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue to eligible participants under such scheme or arrangement of shares of the Company or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

(D) for the purposes of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the Members of the Company in general meeting; or
- (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Bye-laws of the Company to be held; and

“Rights Issue” means an offer of shares of the Company open for a period fixed by the Directors to the holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

5. As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

“**THAT** the Bye-laws of the Company be altered in the following manner:

- (A) (i) by adding the following new definition immediately after the definition “Act” in Bye-law 1:
 

“ “associate” shall have the same meaning as that set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited”
- (ii) by deleting the words “Section 2 of the Securities and Futures (Clearing Houses) Ordinance” in the definition of “clearing house” in Bye-law 1 and substituting therefor the words “the Securities and Futures Ordinance”;
- (B) (i) by adding in Bye-law 2(e) after the words “visible form” the words “, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations”;
- (ii) by deleting the full stop “.” at the end of Bye-law 2(j) and substituting therefor a semi-colon “;”;

## Notice of Annual General Meeting

(iii) by adding the following new Bye-law 2(k) immediately following Bye-law 2(j):

“(k) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.”;

(C) by adding to Bye-law 6 the words “, save for the use of share premium as expressly permitted by the Act,” before the words “any share premium account”;

(D) by adding the following to the end of Bye-law 9:

“Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all Members alike.”;

(E) by adding the words “or by any means in such manner as may be accepted by the Designated Stock Exchange” immediately after the words “any other newspapers in accordance with the requirements of any Designated Stock Exchange” in Bye-law 44;

(F) by adding the words “or by any means in such manner as may be accepted by the Designated Stock Exchange” immediately after the words “any other newspapers in accordance with the requirements of any Designated Stock Exchange” in Bye-law 51;

(G) by adding the words “or unless a poll is taken as may from time to time be required under the rules of the Designated Stock Exchange or under any other applicable laws, rules or regulations” immediately after the words “a poll is demanded” in Bye-law 66;

(H) by adding the words “or unless a poll is taken as may from time to time be required under the rules of the Designated Stock Exchange or under any other applicable laws, rules or regulations” immediately after the words “the demand is not withdrawn” in Bye-law 67;

(I) by deleting Bye-law 68 in its entirety and substituting the following therefor:—

“68. If a poll is duly demanded or unless a poll is taken as may be from time to time be required under the rules of the Designated Stock Exchange or under any other applicable laws, rules or regulations, the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.”;



## Notice of Annual General Meeting

- (J) by renumbering the existing Bye-law 77 as paragraph (A) of Bye-law 77 and adding immediately thereafter the following new paragraph (B):

“(B) Where the Company has knowledge that any Member is, under the rules and regulations of the Designated Stock Exchange from time to time, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”;

- (K) by deleting Bye-law 84 (2) in its entirety and substituting the following therefor:

“Where a Member is a clearing house (or its nominee(s) and, in each case, being a corporation), it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Bye-law shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)), in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.” ;

- (L) by deleting Bye-law 88 in its entirety and substituting the following therefor:

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless during the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting, there shall have been lodged at the Office or at the head office a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected.”;

## Notice of Annual General Meeting

(M) by deleting Bye-law 103 in its entirety and substituting the following therefor:

“103.(1) Save as otherwise provided by the Bye-laws, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associate(s) is materially interested, but this prohibition shall not apply to any of the following matters namely:—

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associate(s) or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director or his associate(s) together with any of his/their associates is/are beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of his associate(s) is derived); or

## Notice of Annual General Meeting

- (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or his associate(s) as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s) (either directly or indirectly) is/are the holder(s) of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director and/or his associate(s) together with his/their associates hold(s) five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall be counted in the quorum but shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.”

## Notice of Annual General Meeting

(N) by renumbering the existing Bye-law 136 as Bye-law 136(1) and adding immediately thereafter the following new Bye-law 136(2):

“136(2). Notwithstanding any provision contained in these Bye-laws, the Directors may, if permitted by applicable law, authorise the destruction of documents set out in sub-paragraphs (a) to (e) of paragraph (1) of this Bye-law and any other documents in relation to share registration which have been microfilmed or electronically stored by the Company or by the share registrar on its behalf provided always that this Bye-law shall apply only to the destruction of a document in good faith and without express notice to the Company and its share registrar that the preservation of such document was relevant to a claim.”;

(O) by adding the words “and Bye-law 153A” after the words “Subject to Section 88 of the Act” in Bye-law 153;

(P) by adding the following new Bye-laws 153A and 153B immediately following Bye-law 153:

“153A. To the extent permitted by and subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Bye-law 153 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company’s annual accounts and the directors’ report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors’ report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company’s annual financial statement and the directors’ report thereon.

153B. The requirement to send to a person referred to in Bye-law 153 the documents referred to in that Bye-law or a summary financial report in accordance with Bye-law 153A shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Bye-law 153 and, if applicable, a summary financial report complying with Bye-law 153A, on the Company’s computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company’s obligation to send to him a copy of such documents.”;

## Notice of Annual General Meeting

(Q) by replacing the words “fourteen (14)” with “twenty-one (21)” in Bye-law 154(2);

(R) by deleting Bye-law 160 in its entirety and substituting the following therefor:

“160. Any Notice or document (including any “corporate communication” within the meaning ascribed thereto under the rules of the Designed Stock Exchange), whether or not to be given or issued under these Bye-laws from the Company to a Member, shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appointed newspapers (as defined in the Act) or in any other newspapers in accordance with the requirements of any Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company’s website and giving to the Member a notice stating that the notice or other document is available there (a “notice of availability”). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.”

(S) by deleting Bye-law 161 in its entirety and substituting the following therefor:

“161. Any Notice or other document:—

- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;

## Notice of Annual General Meeting

- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A Notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
- (c) if served or delivered in any other manner contemplated by these Bye-laws, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch, transmission or publication; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof;
- (d) if served by advertisement in appointed newspapers (as defined in the Act) or in any other newspapers in accordance with the requirements of any Designated Stock Exchange, shall be deemed to have been served on the day on which the notice is first published; and
- (e) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.”

By Order of the Board  
**Yeung Kam Hoi**  
*Company Secretary*

Hong Kong, 30th April, 2004

## Notice of Annual General Meeting

*Notes:*

- (a) A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote in his stead in accordance with the Company's Bye-laws. A proxy need not be a Member of the Company.
- (b) A form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited with the Company's Registrars in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude Members from attending and voting in person at the Annual General Meeting or at any adjourned meeting should they so wish.
- (c) Where there are joint holders of any share in the Company any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (d) Item 4 set out in this notice relates to the grant of a general mandate to the Directors of the Company to issue new shares of up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the relevant resolution. The Company has no immediate plans to issue such new shares.
- (e) This notice will also be available for viewing on the website of each of The Stock Exchange of Hong Kong Limited at <http://www.hkex.com.hk> and the Company at <http://www.laisun.com>.