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Lai Sun Hotels International Limited

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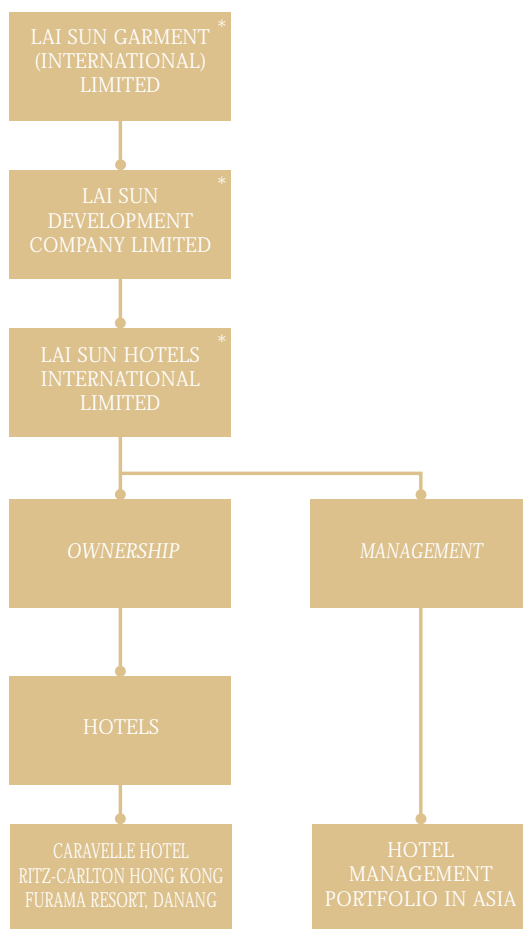
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Corporate Profile

Lai Sun Hotels International Limited is a member of the Lai Sun Group. Prior to the formation of the Company, Glynhill International Limited, a company first listed on the Hong Kong stock exchange in 1973, was the holding company for the hotel interests of the Lai Sun Group. Following a reorganisation by way of a scheme of arrangement in November 1996, the Company became the new listed holding company, replacing Glynhill International Limited. The principal activities of the Company are investment in and management of hotels and restaurants.



* Listed Company

Corporate Information

Place of Incorporation

Bermuda

Directors

Executive Directors

Lien Jown Jing, Vincent (*Chairman*)

Stephen Hung (*Vice Chairman*)

Lee Po On (*Chief Executive Officer*)

Lam Kin Ngok, Peter

Lim Por Yen

Liu Ngai Wing

Victor Yang

Non-Executive Directors

Lam Kin Ming

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 HM11

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

1601 Hutchison House

10 Harcourt Road

Central, Hong Kong

Share Registrars and Transfer Office in Bermuda

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

Hamilton, Bermuda

Auditors

Ernst & Young

Certified Public Accountants

15th Floor

Hutchison House

10 Harcourt Road

Central

Hong Kong

Solicitors

As to Hong Kong law:

Siao, Wen, Liu & Leung

14th & 15th Floors

Hang Seng Building

77 Des Voeux Road Central

Hong Kong

As to Bermuda law:

Conyers Dill & Pearman

3408 Two Exchange Square

8 Connaught Place

Central

Hong Kong

Bankers

Standard Chartered Bank

Hang Seng Bank Limited

Hongkong Bank of Canada

Chairman's Statement



Chairman LIEN Jown Jing, Vincent

RESULTS

1999 was the “Year of Change” for Lai Sun Hotels. The changes, dictated by the evolution of the market place, will have a direct impact on our strategy, our organization, our businesses, our colleagues and our shareholders.

The Group reported a net loss attributable to shareholders of HK\$884,751,000 for 1999 as compared to a net loss of HK\$49,802,000 for 1998. Loss per share was Hong Kong 48.5 cents for the year (1998: Hong Kong 2.73 cents).

No interim dividend was paid during the year (1998: Hong Kong 1 cent). The Board of Directors does not recommend a final dividend for the year (1998: Nil).

BUSINESS REVIEW

Turnover was HK\$374,694,000 for 1999 (1998: HK\$369,221,000) representing an increase of 1.5% over the prior year. The increase was mainly contributed by hotel revenue growth derived from The Ritz-Carlton Hong Kong and the Caravelle Hotel in Ho Chi Minh City, Vietnam, which had a full year operation in 1999. On the other hand, hotel management fee income decreased by 74% resulting from the disposal of Century International Hotels group in early 1999.

Chairman's Statement

The Group achieved a gross profit of HK\$200,597,000 for 1999 (1998: HK\$182,116,000), mainly contributed by the guaranteed rental income from the service apartments of the Hong Kong Plaza in the People's Republic of China ("PRC") and the improved performance of The Ritz-Carlton Hong Kong.

The hospitality sector in the USA and Europe witnessed the resurgence in capital values, strong growth in operating margins and consolidation of global brand operators. This is both good and bad news for us. Good news because we have been able to divest of our US assets at a very attractive return and bad news because we cannot acquire trophy assets at capital values deemed attractive.

During the period under review, the Group disposed of the Four Seasons Hotel, New York, and the Regent Beverly Wilshire Hotel, Los Angeles, the USA, and recorded a profit of HK\$288,302,000 on disposal of these hotels. However, this was more than offset by non-recurring losses and provisions made on the balanced hotel portfolio, as the Group recorded a net loss and provisions of HK\$951,449,000. These mainly comprised losses arising from the disposal of Whistler Mountain Inn, a residential property under development in Vancouver and 181 service apartments at the North Tower of the Hong Kong Plaza in Shanghai. Meanwhile, deficits were recorded from the diminution in value of hotel properties which included The Ritz-Carlton Hong Kong, the Caravelle Hotel in Ho Chi Minh City, the Furama Resort in Danang, Vietnam, and a golf course in Dongguan, the PRC. Finally, the goodwill arising on the acquisition of certain hotel management service companies was written off after management assessment of future earnings on these investments.

Ownership of hotels

The Ritz-Carlton Hong Kong, Hong Kong

While the overall local hotel industry improved in occupancy, room rates remained under mild pressure. The hotel achieved an average occupancy rate of 71% as compared to 58.9% for 1998. Average room rate also recorded a decrease of 3% from HK\$1,465 to HK\$1,415. In light of an increase in the number of visitors to Hong Kong, the Group foresees an improvement on average room rate as well as food and beverage revenue.

Chairman's Statement

Caravelle Hotel, Ho Chi Minh City, Vietnam

The Group owns an 26% equity interest in the hotel, which has 335 guestrooms and is situated in a prime area of the city. The hotel has encountered competition in room rates and occupancy owing to oversupply of the same grade of hotels in the territory after commencing operations in May 1998. The hotel achieved an average occupancy rate of 43% as compared to 50% for 1998. Average room rate was maintained at US\$60 comparing to 1998.

The hotel business has maintained a steady growth in turnover since inception. We expect turnover to further increase and generate decent cash flow to the Group in 2000.

Furama Resort, Danang, Vietnam

The Group owns an 31.25% equity interest in the hotel which is the most well-known resort in Vietnam. The hotel achieved an average occupancy rate of 30% as compared to 39.6% for 1998, while average room rate was largely unchanged at US\$85.

While the profit contribution remains immaterial, looking ahead, with substantial effort being placed to promote the hotel to attract overseas visitors, we are sanguine over the medium term prospects of this unique deluxe hotel resort.

SUBSEQUENT EVENTS

Directors and senior management of the Company have been in consultation with investment bankers and analysts and began a comprehensive operating and investment review since January 2000. We have appointed ING Barings to act as our advisor to help synthesise our strategic deliberations and implementation of our strategy in a focused manner.

In the year 2000, two key events will be pivotal in the future direction of our Company:

Firstly, on 14th March, 2000, the Company announced the conditional acquisition of an effective 25% stake in HKATV.com Limited ("HKATV.com"), the exclusive Internet delivery means for content of Asia Television

Chairman's Statement

Limited. The stake in HKATV.com will enable our Group to utilise its relationship with HKATV.com as a key building block in its media content-related strategy.

The Directors also announced the Group's increasing focus on Internet and technology-related multimedia business and the relative reduction of its emphasis on hotel investments. As at the report date, the Group is still carrying on the existing business of hotel investments, and the management of hotels and restaurants.

Our new strategic focus will comprise substantial divestment of our hotel assets and redeployment of our resources into the acquisition and development of media content assets. We will also allocate a portion of our resources into employee-related training programs.

Secondly, the Company agreed to purchase from Lai Sun Development Company Limited ("LSD") the retail and hotel portions of the redeveloped Furama Hotel for a consideration of HK\$1,900 million. The proposal was approved by the independent shareholders of both companies on 22nd March, 1999.

On 24th March, 2000, Furama Hotel Enterprises Limited ("FHEL") entered into a Sale and Purchase Agreement with Southwold Limited ("Southwold"), a 35%-owned associate of LSD, pursuant to which FHEL conditionally agreed to sell the Furama Hotel to Southwold. The remaining 65% of Southwold is owned by Century West International Limited, a company jointly held by Pidemco Land (HK) Pte. Ltd. and American International Assurance Company (Bermuda) Limited. LSD informed the Directors that they would not proceed with the development of the Furama Hotel as planned. The Group has been finalising a cancellation agreement with LSD that will be presented for shareholders' approval by no later than June this year.

LITIGATION

On 20th March, 2000, Sun Microsystems Inc. ("SMI"), a corporation organized and existing under the laws of the State of Delaware, the USA, brought an action in the court of First Instance of the High Court of the Hong Kong Special Administrative Region against the Company for passing off, seeking amongst other reliefs, a permanent injunction that the Company be restrained from carrying on any activity in the field of information technology under the name "eSun.com", "eSun.com Holdings Limited" or any other name incorporating the word "Sun" other than as part of the

Chairman's Statement

name of "Lai Sun". At the same time, SMI also issued a summons seeking an interlocutory injunction to that effect pending the outcome of the trial of the action.

Upon advice of legal advisers to the Company, the Directors take the view that the Company has reasonable prospects of defending the action brought against it by SMI.

PROSPECTS

Through the stake in HKATV.com, the Company will develop into a Chinese media entertainment content hub catering to a global Chinese audience, substantially concentrated in the Greater China region including PRC, Hong Kong and Taiwan. The Company will embark on an approach of brand building encompassing content from TV network broadcasting, motion pictures, TV serials, magazines and tabloids, animation, sports and leisure/lifestyle areas.

We have formed a media content management team to design and select programming gauged to ever-changing viewers' tastes and preferences. Initially, the team will be responsible for selecting from the libraries of the various brands for digitisation. This head-start for e-readiness will allow the Company to be positioned to maximise benefits derived from broad band capabilities, whether such delivery is via cable, satellite or WAP.

Finally, I would like to thank the fellow directors and employees for their diligence, enthusiasm, strong commitment to the Company and strong support given to the Board in charting a new course for the Company.

Lien Jown Jing, Vincent

Chairman

Hong Kong

27th April, 2000

Report of the Directors

The Directors hereby present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 1999.

PRINCIPAL ACTIVITIES

The nature of the principal activities of the Company and the Group has not changed during the year.

The principal activity of the Company during the year was investment holding.

The principal activities of the Group during the year consisted of investments in, and the management of, hotel and restaurant operations and property investment.

SEGMENTED INFORMATION

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity and geographical area of operations for the year ended 31st December, 1999 is as follows:

	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000
By activity:		
Hotel and restaurant operations	333,684	28,688
Hotel management fee income	8,997	3,413
Property investment	<u>32,013</u>	<u>24,691</u>
	<u>374,694</u>	56,792
Unallocated general and administrative expenses, net of other income		(68,809)
Compensation received and receivable from Lai Sun Development Company Limited		2,459
Interest income received and receivable on the deposits paid to Furama Hotel Enterprises Limited		108,537
Provisions for diminutions in values of associates		(116,224)
Write off of goodwill		(83,362)
Loss on disposal of a property		(158,645)
Provisions for diminutions in values of fixed assets		(1,030,470)
Provisions for impairment in value of long term investments		(55,157)
Net gain on disposal of subsidiaries		<u>58,306</u>
		<u>(1,286,573)</u>

Report of the Directors

SEGMENTED INFORMATION (continued)

	Turnover HK\$'000	Contribution to loss from operating activities HK\$'000
By geographical area:		
The People's Republic of China (the "PRC"):		
Hong Kong	212,707	30,738
Other areas	32,013	24,691
Canada	65,064	3,349
United States of America	2,494	2,137
Others	62,416	(4,123)
	<u>374,694</u>	<u>56,792</u>
Unallocated general and administrative expenses, net of other income		(68,809)
Compensation received and receivable from Lai Sun Development Company Limited		2,459
Interest income received and receivable on the deposits paid to Furama Hotel Enterprises Limited		108,537
Provisions for diminutions in values of associates		(116,224)
Write off of goodwill		(83,362)
Loss on disposal of a property		(158,645)
Provisions for diminutions in values of fixed assets		(1,030,470)
Provisions for impairment in value of long term investments		(55,157)
Net gain on disposal of subsidiaries		<u>58,306</u>
		<u>(1,286,573)</u>

RESULTS AND DIVIDENDS

Details of the results of the Group for the year ended 31st December, 1999 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 75.

No interim dividend was paid or declared in respect of the year ended 31st December, 1999 (1998: Hong Kong 1.0 cent per ordinary share).

The Directors do not recommend the payment of any final dividend in respect of the year ended 31st December, 1999 (1998: Nil).

Report of the Directors

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 (<i>Chairman</i>)	
Stephen Hung (<i>Vice Chairman</i>)	(appointed on 1st February, 2000)
Lee Po On (<i>Chief Executive Officer</i>)	(appointed on 10th March, 2000)
Lam Kin Ngok, Peter	
Lim Por Yen	
Lam Kin Ming	
Liu Ngai Wing	
Victor Yang	
U Po Chu	
Shiu Kai Wah	
Chiu Wai	
Alfred Donald Yap*	
Low Chee Keong*	(appointed on 2nd August, 1999)
Brian Deeson	(resigned on 3rd February, 1999)
Vichai Srisuthapan	(resigned on 3rd February, 1999)
Zhang Dachun	(resigned on 19th March, 1999)
Lam Ka Chung, William	(resigned on 31st July, 1999)
Cheung Wing Sum, Ambrose	(resigned on 11th October, 1999)
Dong Jiufeng	(appointed on 19th March, 1999 and resigned on 7th January, 2000)
Wong Tin Yau, Kelvin	(resigned on 7th January, 2000)

* *Independent non-executive directors*

The Directors would like to record a vote of thanks to Messrs. Brian Deeson, Vichai Srisuthapan, Zhang Dachun, Lam Ka Chung, William, Cheung Wing Sum, Ambrose, Dong Jiufeng and Wong Tin Yau, Kelvin for their valuable services and past contributions made to the Company during their tenure of office.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Messrs. Stephen Hung, Lee Po On and Low Chee Keong will retire at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election.

In accordance with Bye-law 87 of the Company's Bye-laws, Messrs. Lam Kin Ngok, Peter, Chiu Wai and Alfred Donald Yap will retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election.

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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

- (a) Pursuant to an agreement entered into by Lai Sun Hotels (B.V.I.) Limited, Lai Sun Development Company Limited ("LSD"), Grand Hill Holdings Limited, Lam Kin Ngok, Peter and Glynhill International Limited ("GIL") in respect of the acquisition of Heathfield Limited, LSD and Lam Kin Ngok, Peter have given an indemnity to the Group against all liabilities, losses, proceedings and claims arising from, or in consequence of, the litigation concerning the interest purchased.
- (b) A hotel management contract was entered into between a subsidiary of the Group, Delta Hotels Management (Thailand) Limited and P.S. Development Group of Companies Ltd. ("PSD"), an associate of LSD. This contract sets out the management services provided to a hotel owned by PSD in Bangkok.
- (c) A royalty agreement was entered into between a subsidiary of the Group, Toplink Profits Limited ("TPL") and PSD. This agreement sets out the right to enable a hotel owned by PSD in Bangkok to use the name "DELTA", being the tradename and trademark in its hotel operations. This agreement was terminated upon the deflagging of the "DELTA" logo on 30th September, 1999.
- (d) A central marketing and promotional services agreement was entered into between a subsidiary of the Group, Delta Asia Limited ("DAL") and PSD. This agreement sets out the marketing and promotional services provided to a hotel owned by PSD in Bangkok.
- (e) A management agreement was entered into on 1st July, 1993 between a subsidiary of the Group, Glynhill International Hotels Management Sdn Bhd and Pengkalen Holiday Resort Sdn Bhd ("PHR"), a company in which LSD has a 10% interest. The agreement sets out the management services provided to a hotel owned by PHR in Malaysia.
- (f) A royalty agreement was set up on 1st July, 1993 between a subsidiary of the Group, Dixieland International Limited, and PHR in Malaysia to use the "DELTA" tradename and trademark in its hotel operations.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS (continued)

(g) In connection with a hotel in the Philippines (the "Hotel") owned by Philippine Dream Company, Inc. ("PDC"), an associate of LSD, a number of agreements were set up by PDC on 8th December, 1995:

- (1) A management agreement was entered into with Delta Hotels & Resorts Asia Pacific Pte. Ltd. ("DHR"), a subsidiary of DAL, for management services provided to the Hotel.

Under the agreement, DHR receives management fees based on a percentage of the gross operating profit of the Hotel and the reimbursement of costs and expenses incurred in the provision of such services. The management agreement has an initial term of five years and may be extended for three additional terms of five years at DHR's option.

- (2) An offshore agreement was entered into with DAL for marketing and advisory services provided to the Hotel. DAL is entitled to service fees based on a percentage of the gross revenue and gross room revenue of the Hotel and the reimbursement of costs and expenses incurred in the provision of such services. The agreement has an initial term of 10 years and may be extended at DAL's option for an additional term of 10 years.

- (3) A licensing agreement was entered into with TPL for the Hotel to have the right to use the name "DELTA", being the tradename and trademark in its hotel operations. The Hotel ceased to use the name "DELTA" in August 1998 upon mutual agreement with Delta Hotels Limited.

The above agreements were approved by the government of the Philippines on 16th February, 1996. Each subsequent extension of these agreements is subject to government approval.

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Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Mr. Chiu Wai were deemed to be interested in the contracts mentioned in (a) to (g) by virtue of their interests described under paragraph (b) of the section "Directors' interests in equity or debt securities" on pages 20 to 22.

Prior to his resignation from the Board, Mr. Cheung Wing Sum, Ambrose was a consultant with Woo, Kwan, Lee & Lo which provides legal services to the Group and receives normal professional fees for such services.

Mr. Victor Yang is a partner of Boughton Peterson Yang Anderson, a firm which provides legal services to the Group and receives normal professional fees for such services.

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

Except as disclosed above, under the heading "Connected transactions" and in the notes to the financial statements, no Director had a material interest in any contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Report of the Directors

CONNECTED TRANSACTIONS

- (a) On 3rd February, 1999, Glynhill International Limited (“GIL”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the “Agreement”), pursuant to which GIL conditionally agreed (i) to effectively acquire (the “Acquisition”) 49% attributable shareholding interests in Glynhill Hotels and Resorts Limited (“Resorts”) and DAL from Century International Hotels Limited (incorporated in the Commonwealth of The Bahamas) (“CIH Bahamas”), and (ii) to dispose (the “Disposal”) of its entire interest in CIH Bahamas, representing 51% ownership in CIH Bahamas, to Dove Corporation (“Dove”). The principal assets of Resorts and DAL are the management rights in a portfolio of hotels operated under “Delta” and “Chains” tradenames. The principal assets of CIH Bahamas are its interests in the management rights in a portfolio of hotels operated under the “Century” tradename through its wholly-owned subsidiary, Century International Hotels Limited (incorporated in Samoa) (“CIH”).

The consideration payable by GIL for the Acquisition was HK\$39.2 million and that receivable by GIL under the Disposal was HK\$65.2 million. Both considerations were satisfied by way of net cash receipt. The Directors of the Company considered that the transaction represented an opportunity for the Group to streamline its operation and was in the interests of the Group.

Mr. Brian Deeson and Mr. Vichai Srisuthapan, then Directors of the Company, held approximately a 39.4% and a 13.1% interest in Dove, respectively. The remaining 47.5% interest in Dove was held by Ocean Capital Limited and Elecrent Consultants Limited. Save for their directorship in the Company and/or their substantial shareholding interest in CIH Bahamas through Dove, the shareholders of Dove (the “Dove Shareholders”) were otherwise independent of and not connected with the Directors, the chief executive or the substantial shareholders of the Company, its subsidiaries or their respective associates.

The Agreement constituted a connected transaction under the Listing Rules but fell within the de minimis provision under Rule 14.25(1) of the Listing Rules.

The terms of the Agreement were negotiated on an arm’s length basis with reference to the fee income to be generated from the existing management contracts held by DAL, Resorts and CIH in respect of the hotels in operation and under development as well as that from contracts under negotiation. The Disposal resulted in a loss of approximately HK\$23 million.

Mr. Brian Deeson was responsible for the overall corporate management and operation of CIH Bahamas and Mr. Vichai Srisuthapan was responsible for the financial management and control of CIH Bahamas. Pursuant to the Agreement, Mr. Deeson and Mr. Srisuthapan resigned as Directors of the Company as at the completion of the Acquisition and the Disposal. Mr. Deeson was appointed as consultant to the Company following his date of resignation to 11th August, 1999 at a monthly fee of HK\$50,000.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

- (b) The Directors of the Company, LSD and Lai Sun Garment (International) Limited (“LSG”) announced that on 11th February, 1999, the Company and its indirect wholly-owned subsidiary, Golden Pool Enterprise Limited (“GPEL”), entered into an agreement (“the Development Agreement”) with LSD and its indirect wholly-owned subsidiary, Furama Hotel Enterprises Limited (“FHEL”), relating to the redevelopment of the Furama Hotel Hong Kong (the “Furama Hotel”) into a mixed-use retail, hotel and office building (the “New Building”) and the purchase by GPEL of the retail and hotel portions (“Hotel Portions”) of the New Building.

Under the Development Agreement, FHEL, as owner of the Furama Hotel, agreed to redevelop the Furama Hotel and sell the Hotel Portions to GPEL. LSD, as project manager, agreed to guarantee the obligations of FHEL under the Development Agreement and may perform the fitting out works for the Hotel Portions. Subject to certain adjustments and conditions, the total consideration for the purchase of the Hotel Portions and its possible fitting out by LSD as provided in the Development Agreement was HK\$2,150 million. Out of this amount, the consideration for the purchase of the Hotel Portions (including basic fixture costs but excluding fitting out costs) was HK\$1,900 million.

The amount of HK\$2,150 million was arrived at arm’s length negotiations between the parties and is equivalent to the value of the Hotel Portions appraised by an independent property valuer appointed by the Company.

A deposit of HK\$965 million was made to FHEL which is subject to an interest rate of the higher of 8% or LIBOR plus 2% per annum. The remaining balance of HK\$935 million was paid as prepayment and is interest bearing at a rate of 3-month deposit rate of the Company’s principal banker plus 1% per annum.

The Company intends to connect the Hotel Portions with the adjacent Ritz-Carlton Hotel and operate both as one integrated hotel. As the owner of the Ritz-Carlton Hotel is only 65% owned by the Company, one of the conditions to the purchase of the Hotel Portions, unless waived by GPEL, is the Company entering into an agreement with the owner regarding, among other things, the joint operation of the Hotel Portions and the Ritz-Carlton Hotel.

The Development Agreement provides that, upon the occurrence of certain events, the Company will have an option to purchase the Furama Hotel at a consideration equal to the open market value of the Furama Hotel as at the date of exercise of the option, as determined by independent property valuers appointed by GPEL and FHEL jointly. The exercise of the option will be subject to the requirements of the Listing Rules.

The Development Agreement was negotiated on an arm’s length basis and the consideration was agreed based on independent valuations by separate independent property valuers.

At that time, the directors of LSG, LSD and the Company believed that the transaction was one further step toward the Lai Sun group’s long term goal of ultimately having all of the hotel interests of the Lai Sun group held under the Company. It also enabled LSG and LSD to finalise their plans regarding the Furama Hotel and to make the necessary arrangements for its redevelopment. The Directors of the Company further believed that, subject to reaching an agreement with the owner of the Ritz-Carlton Hotel, the integration and joint operation of the Hotel Portions with the Ritz-Carlton Hotel could create synergies and efficiencies of scale, increase the value of its existing investment in the Ritz-Carlton Hotel and solidify the Company’s position of having one of the very few international five-star luxury hotels in Central district, Hong Kong.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

As at 13th February, 1999, LSG together with its associates and Mr. Lim Por Yen and his associates, Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming (the “Lim Family”) beneficially owned approximately 50.7% of the issued share capital of LSD which, in turn, beneficially owned approximately 52.17% of the issued share capital of the Company. Accordingly, the transaction constituted a connected transaction for LSG, LSD and the Company, a major transaction for the Company and a disclosable transaction for LSG. The transaction was approved by the independent shareholders of each of LSG, LSD and the Company on 22nd March, 1999.

- (c) On 14th May, 1999, the respective boards of Directors of the Company and Lai Fung Holdings Limited (“LFH”) jointly announced that the Company had entered into an agreement with Goldthorpe Limited (“Goldthorpe”), a wholly-owned subsidiary of LFH.

Pursuant to the agreement, the Company agreed to dispose to Goldthorpe of all of the issued share capital of and shareholder’s loans due from Good Strategy Limited (“Good Strategy”), which holds 181 units in the North Tower of Hong Kong Plaza, Shanghai, PRC (the “Hong Kong Plaza Properties”), for a total cash consideration of HK\$475 million (the “Disposal”).

The consideration of HK\$475 million was determined on an arm’s length basis between the parties by reference to the valuations of the Hong Kong Plaza Properties performed by independent valuers as at 30th April, 1999.

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The Disposal presented a good opportunity for the Group to realise its interest in the Hong Kong Plaza Properties at a reasonable price. The net proceeds from the Disposal were used by the Group for general working capital purposes and would provide additional funding for the Group to capture any potential investment opportunity as and when they arise.

The loss on disposal of the entire issued share capital of Good Strategy and the shareholders’ loans was approximately HK\$23 million.

The Hong Kong Plaza Properties were acquired by Good Strategy from Shanghai Li Xing Real Estate Development Co., Ltd. (“Li Xing”), a 60% owned subsidiary of LFH in 1997. In connection with the acquisition, Li Xing granted to the Group a guaranteed rental return of 13% per annum on the consideration paid. The guaranteed rental return received and receivable from Li Xing for the year was approximately HK\$32 million.

As at 14th May, 1999, the Lim Family owned approximately 42% of the issued share capital of LSG, LSG owned approximately 44.76% of the issued share capital of LSD and LSD owned approximately 52.17% of the issued share capital of the Company. The Lim Family also directly owned approximately 5.94% of the issued share capital of LSD and approximately 0.95% of the issued share capital of the Company. The agreement constituted a discloseable and connected transaction for the Company under the Listing Rules. The transaction was completed on 2nd July, 1999.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

- (d) On 14th March, 2000, the respective boards of Directors of LSG, LSD and the Company jointly announced that on 10th March, 2000, Houseman International Limited (“Houseman”), Asia Television Limited (“ATV”) and HKATV.com Limited (“HKATV.com”) entered into an agreement pursuant to which Houseman conditionally agreed to purchase and ATV conditionally agreed to sell 50% of the issued share capital in HKATV.com for a total consideration of HK\$300,000,000 comprising: (i) HK\$150,000,000 in cash, and (ii) the issue of 210,000,000 new LSD shares.

The consideration was negotiated on an arm’s length basis with ATV by the directors of LSD and the Company and determined based on the long term investment potential and projected revenue to be generated from HKATV.com having regard to the exploitation rights granted to HKATV.com by ATV.

Houseman is a special purpose vehicle owned by LSD and the Company in equal shares and newly established to hold those companies’ investment in HKATV.com. The respective directors of LSG, LSD and the Company considered the entering into of the Agreement to be an attractive investment opportunity for LSD and the Company, which will allow the LSG group to participate directly in ATV’s Internet initiatives relating to the hkatv.com website and the exploitation of certain program rights through, or in connection with, such website and the Internet worldwide.

HKATV.com is a wholly-owned subsidiary of ATV established for the purpose of carrying on the business of developing and maintaining the hkatv.com website and exploiting certain program rights through, or in connection with, such website and the Internet worldwide.

As at 14th March, 2000, LSG together with its associates and the Lim Family beneficially owned approximately 50.66% of the issued ordinary share capital of LSD which, in turn, beneficially owned approximately 52.06% of the issued share capital of the Company. Each of LSD and the Company beneficially owned 50% of the issued share capital of Houseman. The Lim Family beneficially owned approximately 16.08% of the issued share capital of ATV and LSD beneficially owned approximately 16.67% of the issued share capital of ATV. Accordingly, the agreement and the transactions constituted a connected transaction for each of LSG, LSD and the Company. The transaction is expected to be completed on 2nd May, 2000.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS

Directors

Executive Directors

Mr. Lien Jown Jing, Vincent, Chairman, aged 39, 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 11 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.

Mr. Stephen Hung, Vice Chairman, aged 41, was appointed an executive director and Vice Chairman of the Company in February 2000. Mr. Hung is currently co-chairman of The Taipan.net Limited and a non-executive director of Across Asia Multimedia group. He was formerly co-head of Investment Banking at Merrill Lynch responsible for the Asia Pacific region and subsequently formed his owned investment banking firm in 1992, Amida Capital group, and also served as vice chairman and chief executive of American Dream Parks & Entertainment group between 1994–1998.

Mr. Lee Po On, Chief Executive Officer, aged 44, 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 and held the position of chief executive officer of Asia Television Limited during 1993 to 1996. He is also a director of Lai Sun Garment (International) Limited and a Fellow of the Association of Chartered Certified Accountants.

Mr. Lam Kin Ngok, Peter, aged 42, was appointed an executive director and elected the Chairman of the Company in October 1996. Mr. Lam ceased to be the Chairman in December 1999 but remained as an executive director of the Company. 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 the chairman of Lai Fung Holdings Limited. LSD is the holding company of the Company and LSG is a substantial 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 85, 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 Crocodile Garments Limited. LSD is the holding company of the Company and LSG is a substantial shareholder of LSD. Mr. Lim first became involved in the property development and investment business in the mid-1950's and has 60 years' experience in the garment business. He is an honorary citizen of the city of Guangzhou, the city of Swatow, the city of Xiamen and the city of Zhong Shan in the People's Republic of China. 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Directors (continued)

Executive Directors (continued)

Mr. Liu Ngai Wing, aged 49, was appointed an executive director of the Company in November 1998. He is also the chairman and a non-executive director of Yoshiya International Corporation, Limited, and an independent non-executive director of Hang Fung Gold Technology Limited, both being listed companies in Hong Kong. Mr. Liu had held senior management positions with a number of listed companies in Hong Kong before joining the Group in 1998. He is an Associate Member of both the Hong Kong Society of Accountants and the Institute of Chartered Secretaries and Administrators, and is also a Fellow of the Association of Chartered Certified Accountants.

Mr. Victor Yang, aged 54, first joined the Board as an independent non-executive director in October 1996 and was later appointed an executive director of the Company in August 1998. He is a founding partner of the Canadian law firm of Boughton Peterson Yang Anderson and is presently a member of the Law Societies of British Columbia in Canada, Hong Kong and the United Kingdom. He has more than 27 years of legal experience.

Non-Executive Directors

Mr. Lam Kin Ming, aged 62, 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 a director of Lai Sun Development Company Limited ("LSD") and Lai Fung Holdings Limited. LSD is the holding company of the Company and LSG is a substantial shareholder of LSD. Mr. Lam is a son of Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

Madam U Po Chu, aged 75, 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. LSD is the holding company of the Company and LSG is a substantial shareholder of LSD. Madam U has 55 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 67, 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, Lai Sun Development Company Limited and Crocodile Garments Limited. Mr. Shiu has over 30 years' experience in the management of the garment business.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Directors (continued)

Non-Executive Directors (continued)

Mr. Chiu Wai, aged 69, 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 and Crocodile Garments Limited. Mr. Chiu has 45 years’ experience in production management and is responsible for the operation and administration of LSG. He has been working for the Lai Sun Group’s garment business since 1955.

Mr. Alfred Donald Yap J.P., aged 61, is an independent non-executive director of the Company and was first appointed to the Board in December 1996. Mr. Yap is presently a partner of Donald Yap, Cheng & Kong. 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.

Mr. Low Chee Keong, aged 39, 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..

DIRECTORS’ INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31st December, 1999, the interests of the Directors and the chief executive of the Company in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) (the “SDI Ordinance”) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:

(a) The Company

	Number of Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	5,522,890	Nil	Nil	Nil	5,522,890
Lam Kin Ngok, Peter	11,421,890	Nil	Nil	Nil	11,421,890
U Po Chu	375,000	Nil	Nil	Nil	375,000
Liu Ngai Wing	1,787,388	Nil	Nil	10,000,000	1,787,388
				(Note 1)	
Lien Jown Jing, Vincent	3,106,000	Nil	Nil	Nil	3,106,000

Report of the Directors

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (continued)

(a) The Company (continued)

Note 1: An employee share option scheme was adopted by the Company on 25th November, 1996. Options to purchase 10 million shares in the Company at HK\$0.50 each were granted to Mr. Liu Ngai Wing on 22nd February, 1999 pursuant to the share option scheme. The options have a term of 2½ years and are exercisable six months after the date of grant.

Note 2: Lai Sun Development Company Limited ("LSD") and its wholly-owned subsidiaries beneficially owned 951,709,306 shares in the Company. LSG and its wholly-owned subsidiary held an interest of about 44.76% in the issued share capital of LSD. Mr. Lim Por Yen (together with his spouses) held an interest of about 29.80% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG, thus controlling collectively more than one-third of the voting power at LSG's general meetings.

(b) Associated Corporations

(i) Lai Sun Development Company Limited ("LSD")

	Number of Ordinary Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	197,859,550	Nil	Nil	Nil	197,859,550
Lam Kin Ngok, Peter	10,099,585	Nil	Nil	Nil	10,099,585
U Po Chu	633,400	Nil	Nil	Nil	633,400
Chiu Wai	195,500	Nil	Nil	Nil	195,500
Liu Ngai Wing	800	Nil	Nil	Nil	800

Note: LSG and its wholly-owned subsidiary beneficially owned 1,582,869,192 ordinary shares in LSD. Mr. Lim Por Yen (together with his spouses) held an interest of about 29.80% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG, thus controlling collectively more than one-third of the voting power at LSG's general meetings.

(ii) Lai Sun Garment (International) Limited ("LSG")

	Number of Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Lim Por Yen	420,381,750	4,451,790	Nil	Nil	424,833,540
Lam Kin Ngok, Peter	110,794,951	Nil	Nil	Nil	110,794,951
Lam Kin Ming	64,610,000	Nil	Nil	Nil	64,610,000
U Po Chu	3,669,000	Nil	Nil	Nil	3,669,000
Chiu Wai	199,600	Nil	Nil	Nil	199,600

Report of the Directors

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES (continued)

(b) Associated Corporations (continued)

(iii) Lai Fung Holdings Limited ("LFH")

	Number of Shares Held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Liu Ngai Wing	3,000	Nil	Nil	Nil	3,000
Yang Victor	10,000	Nil	Nil	Nil	10,000

Note: LSD beneficially owned 779,958,912 shares in LFH. LSG and its wholly-owned subsidiary held an interest of about 44.76% in the issued share capital of LSD. Mr. Lim Por Yen (together with his spouses) held an interest of about 29.80% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG, thus controlling collectively more than one-third of the voting power at LSG's general meetings.

(iv) Crocodile Garments Limited ("CGL")

As at 31st December, 1999, none of the Directors or the chief executive of the Company or their respective associates had, in pursuance of the SDI Ordinance, any interests in CGL. LSG and its wholly-owned subsidiary beneficially owned 338,982,809 shares in CGL. Mr. Lim Por Yen (together with his spouses) held an interest of about 29.80% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG, thus controlling collectively more than one-third of the voting power at LSG's general meetings.

In addition to the above, two Directors held non-beneficial interests in the share capital of some of the subsidiaries of the Company and of its associated corporations as nominee shareholders for the purpose of complying with the statutory requirement for a minimum number of shareholders for those subsidiaries.

Save as disclosed above, as at 31st December, 1999, none of the Directors or the chief executive of the Company or their respective associates had any interests in the equity or debt securities of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange, pursuant to Section 28 of the SDI Ordinance or the Model Code (including interests which they were deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

Report of the Directors

ARRANGEMENTS TO PURCHASE SECURITIES AND DEBENTURES

An employee share option scheme was adopted by the Company on 25th November, 1996 and will remain in force for a period of 10 years. An option granted under the share option scheme may be exercised in accordance with the terms of the scheme at any time 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.

Options granted to or exercised by certain Directors of the Company subsequent to the financial year end are set out below:

Grant of Options

Name	Date of Grant	No. of Options	Option Period	Subscription Price
Lien Jown Jing, Vincent	12/02/2000	10,000,000	13/08/2000–12/08/2002*	HK\$0.61 per share
Stephen Hung	12/02/2000	15,000,000	13/08/2000–12/08/2002*	HK\$0.61 per share
Lam Kin Ngok, Peter	12/02/2000	20,000,000	13/08/2000–12/08/2002	HK\$0.61 per share
	04/03/2000	15,000,000	05/09/2000–04/09/2002	HK\$1.40 per share
Victor Yang	12/02/2000	2,000,000	13/08/2000–12/08/2002*	HK\$0.61 per share
	04/03/2000	10,000,000	05/09/2000–04/09/2002	HK\$1.40 per share
Lee Po On	04/03/2000	20,000,000	05/09/2000–04/09/2002	HK\$1.40 per share

* in 4 six-month tranches

Exercise of Options

Name	Date of Exercise	No. of Options	Subscription Price
Liu Ngai Wing	04/03/2000	4,000,000	HK\$0.50 per share

In addition to the above grant and exercise of options by the Directors, a total of 10,000,000 share options were granted on 12th February, 2000 to two employees at a subscription price of HK\$0.61 per share.

Save as disclosed above, at no time during the year was the Company, any of its holding companies, subsidiaries, or fellow subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of the equity or debt securities of the Company or any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 1999, the following persons were interested or deemed to be interested in 10% or more of the nominal value of the issued share capital of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

	Number of Shares Held
Lai Sun Development Company Limited ("LSD")	951,709,306
Lai Sun Garment (International) Limited ("LSG")	951,709,306
	<i>(Note)</i>

Note: The above interests in the Company were held by LSD and its subsidiaries. LSG was deemed to be interested in the 951,709,306 shares in the Company held by LSD and its subsidiaries by virtue of LSG and its wholly-owned subsidiary holding an interest of approximately 44.76% in LSD. Mr. Lim Por Yen (together with his spouses) held an interest of approximately 29.80% in the issued share capital of LSG. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and controlled collectively more than one-third of the voting power at LSG's general meetings.

Save for the interests disclosed above, the Directors are not aware of any other person being interested in 10% or more of the issued share capital of the Company as at 31st December, 1999.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st December, 1999, 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 AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

Details of the properties under development held for sale of the Group during the year are set out in note 28 to the financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Company and the Group made charitable contributions totalling HK\$1,000,000 and HK\$1,060,000 respectively.

SUBSIDIARIES

Details of the Company's principal subsidiaries at the balance sheet date are set out in note 16 to the financial statements.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Company and the Group at the balance sheet date are set out in note 29 to the financial statements.

Report of the Directors

INTEREST CAPITALISED

Interest capitalised by the Group during the year amounted to HK\$4,831,000.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year and subsequent thereto, together with the reasons therefor, are set out in notes 30 and 36, respectively, 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 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 1999, 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).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial periods, which have been prepared on the basis that the Group structure under the Scheme of Arrangement announced by the Directors on 2nd September, 1996 had been in existence throughout the periods presented, as extracted from the audited financial statements and adjusted as appropriate, is set out below.

RESULTS

	Year ended 31st December			Five months ended 31st December	Year ended 31st July
	1999	1998	1997	1996	1996
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>374,694</u>	<u>369,221</u>	<u>405,094</u>	<u>60,429</u>	<u>136,464</u>
PROFIT/(LOSS) BEFORE TAX	<u>(1,322,202)</u>	<u>(61,131)</u>	<u>146,347</u>	<u>(14,560)</u>	<u>4,727</u>
Tax	<u>(4,649)</u>	<u>(13,703)</u>	<u>(16,109)</u>	<u>(4,088)</u>	<u>(12,465)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>(1,326,851)</u>	<u>(74,834)</u>	<u>130,238</u>	<u>(18,648)</u>	<u>(7,738)</u>
Minority interests	<u>442,100</u>	<u>25,032</u>	<u>(20,090)</u>	<u>(607)</u>	<u>(188)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>(884,751)</u>	<u>(49,802)</u>	<u>110,148</u>	<u>(19,255)</u>	<u>(7,926)</u>

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	As at 31st December				As at
	1999	1998	1997	1996	31st July
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed assets	1,107,843	2,580,724	2,195,057	423,795	419,185
Investment properties	—	483,000	479,919	—	—
Properties under development	—	—	563,230	398,716	358,895
Goodwill	—	61,272	86,874	89,257	28,943
Associates	81,062	1,191,398	1,533,539	286,560	283,501
Long term investments	85,001	—	—	—	—
Long term deposits	—	10,000	83,622	—	—
Deposits paid to Furama Hotel Enterprises Limited	1,900,000	—	—	—	—
Due from Lai Sun Development Company Limited	—	382,377	382,690	—	—
Deferred tax assets	1,397	7,873	2,470	—	—
Long term receivable	92,832	31,091	—	—	—
Current assets	496,539	863,840	569,431	243,005	237,042
TOTAL ASSETS	3,764,674	5,611,575	5,896,832	1,441,333	1,327,566
Current liabilities	(195,487)	(723,713)	(431,718)	(265,528)	(114,981)
Long term bank loans and other borrowings	(232,829)	(305,027)	(704,998)	(189,733)	(186,711)
TOTAL LIABILITIES	(428,316)	(1,028,740)	(1,136,716)	(455,261)	(301,692)
MINORITY INTERESTS	(338,754)	(743,341)	(778,874)	(131,695)	(155,074)
NET ASSETS	2,997,604	3,839,494	3,981,242	854,377	870,800

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the Group's sales to its five largest customers and purchases from its five largest suppliers accounted for less than 30% of the total sales and purchases, respectively.

Report of the Directors

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 1999, the Group had aggregate composite banking facilities of HK\$344,942,000, of which HK\$340,081,000 had been utilised, and cash and cash equivalent of HK\$242,713,000.

Of the total bank loans and other borrowings of HK\$340,081,000 taken out by the Group, HK\$107,252,000 is repayable on demand or within one year, HK\$97,701,000 is repayable between one to two years and HK\$135,128,000 is repayable between two to five years. The short term debts of the Group are in the form of secured and unsecured bank loans. The Group's long term debts are in the form of secured bank loans which are repayable by instalments.

Taking into account the existing banking facilities available, the Group will have sufficient working capital and funds to finance its investments and operations.

EMPLOYEES AND REMUNERATION POLICIES

The Group employs a total of approximately 30 employees which excludes those employees employed by the hotels. Pay rates of employees are maintained at competitive levels and salary and bonuses are rewarded on a performance related basis. Other staff benefits include contributory provident fund, 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.

YEAR 2000 COMPLIANCE

The Group had previously disclosed the relevant information on Year 2000 ("Y2K") issue as required by The Stock Exchange of Hong Kong Limited in its 1998 annual report and its 1998 and 1999 interim reports.

All of the Group's computer systems and equipment have been operating smoothly into the Y2K and passed the leap year date of 29th February, 2000. However, the Group will continue to stay alert and prepared for the other upcoming "high risk" days generally identified with the Y2K issue. The total cost incurred for ensuring the Group's Y2K compliance was within the original budget.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-laws.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice. The audit committee comprises two Independent Non-Executive Directors, Mr. Alfred Donald Yap and Mr. Low Chee Keong as at the report date. The terms of reference of the audit committee were adopted with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. Since the establishment of the audit committee, two meetings have been held.

Report of the Directors

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 Annual General Meeting.

On Behalf of the Board

Lien Jown Jing, Vincent

Chairman

Hong Kong

27th April, 2000

Report of the Auditors



To the members

Lai Sun Hotels International Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 30 to 75 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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 and performed 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. 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.

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31st December, 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

27th April, 2000

Consolidated Profit and Loss Account

Year ended 31st December, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
TURNOVER	5	374,694	369,221
Cost of sales		<u>(174,097)</u>	<u>(187,105)</u>
Gross profit		200,597	182,116
Other revenue		132,923	94,447
Marketing expenses		(16,094)	(16,364)
Administrative expenses		(86,754)	(115,015)
Other operating expenses		(131,693)	(117,154)
Provisions for diminutions in values of associates		(116,224)	—
Net loss on investments in associates		—	(25,466)
Write off of goodwill		(83,362)	—
Provision for diminution in value on goodwill		—	(23,219)
Provisions against the carrying values of properties under development to net realisable values and losses on disposal of properties		(158,645)	(61,365)
Provisions for diminutions in values of fixed assets		(1,030,470)	—
Provisions for impairment in value of long term investments	15	(55,157)	—
Net gain on disposal of subsidiaries		58,306	—
Revaluation deficit on investment properties		—	<u>(28,247)</u>
LOSS FROM OPERATING ACTIVITIES	6	<u>(1,286,573)</u>	<u>(110,267)</u>
Finance costs	7	(38,390)	(56,987)
Attributable profits less losses related to associates	18(b)	<u>2,761</u>	<u>106,123</u>
LOSS BEFORE TAX		<u>(1,322,202)</u>	<u>(61,131)</u>
Tax	9	<u>(4,649)</u>	<u>(13,703)</u>
LOSS BEFORE MINORITY INTERESTS		<u>(1,326,851)</u>	<u>(74,834)</u>
Minority interests		<u>442,100</u>	<u>25,032</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	10, 31	<u>(884,751)</u>	<u>(49,802)</u>
DIVIDEND	11	—	<u>18,241</u>
LOSS PER SHARE — BASIC	12	<u>(48.50 cents)</u>	<u>(2.73 cents)</u>

Consolidated Statement of Recognised Gains and Losses

Year ended 31st December, 1999

	Note	1999 HK\$'000	1998 HK\$'000
<hr/>			
Net gains/(losses) not recognised in the profit and loss account:			
Exchange realignments on translation of the financial statements of foreign subsidiaries and associates, net	31	12,759	(27,824)
Net loss for the year attributable to shareholders		<u>(884,751)</u>	<u>(49,802)</u>
Total recognised gains and losses		(871,992)	(77,626)
Goodwill eliminated against capital reserve on acquisition of interests in:			
Subsidiaries	31	(77,239)	(4,553)
Associates	31	<u>(32,350)</u>	<u>(36,323)</u>
		<u>(981,581)</u>	<u>(118,502)</u>

Consolidated Balance Sheet

31st December, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	1,107,843	2,580,724
Investment properties	14	—	483,000
Long term investments	15	85,001	—
Goodwill	17	—	61,272
Associates	18	81,062	1,191,398
Long term deposits	19	—	10,000
Due from Lai Sun Development Company Limited	20	—	382,377
Deposits paid to Furama Hotel Enterprises Limited	21	1,900,000	—
Deferred tax assets	22	1,397	7,873
Long term receivables	23	92,832	31,091
		<u>3,268,135</u>	<u>4,747,735</u>
CURRENT ASSETS			
Short term investments	24	543	2,310
Due from fellow subsidiaries	25	29,468	8,319
Stocks	26	13,574	19,462
Due from Whistler Mountain Inn, Limited Partnership	27	3,147	20,679
Properties under development held for sale	28	—	369,349
Debtors and deposits		192,012	161,868
Cash held in trust	27	15,082	—
Pledged deposits	29	—	2,229
Cash and cash equivalents		242,713	279,624
		<u>496,539</u>	<u>863,840</u>
CURRENT LIABILITIES			
Creditors and accruals		84,331	150,877
Tax payable		3,904	8,772
Interest-bearing bank loans, overdrafts and other borrowings due within one year	29	107,252	564,064
		<u>195,487</u>	<u>723,713</u>
NET CURRENT ASSETS		<u>301,052</u>	<u>140,127</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,569,187	4,887,862
NON-CURRENT LIABILITIES			
Long term bank loans	29	(232,829)	(305,027)
Minority interests		(338,754)	(743,341)
		<u>2,997,604</u>	<u>3,839,494</u>

Consolidated Balance Sheet

31st December, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
CAPITAL AND RESERVES			
Issued capital	30	182,414	182,414
Reserves	31	<u>2,815,190</u>	<u>3,657,080</u>
		<u>2,997,604</u>	<u>3,839,494</u>

Lien Jown Jing, Vincent
Director

Lee Po On
Director

Consolidated Cash Flow Statement

31st December, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	32(a)	33,996	117,984
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		96,248	13,245
Compensation received on investments in:			
Subsidiaries		2,751	30,082
Associates		11,481	44,806
Interest paid on bank loans, overdrafts and other borrowings		(38,052)	(69,786)
Dividends paid		—	(45,603)
Dividend paid to minority shareholders		—	(6,762)
Net cash inflow/(outflow) from returns on investments and servicing of finance		72,428	(34,018)
TAX			
Hong Kong profits tax paid		—	(34)
Overseas taxes paid		(9,128)	(16,789)
Taxes paid		(9,128)	(16,823)
INVESTING ACTIVITIES			
Deposits paid to Furama Hotel Enterprises Limited		(935,077)	—
Additions to properties under development		(39,769)	(236,276)
Additions to investment properties		—	(31,328)
Purchases of fixed assets		(20,279)	(68,057)
Purchases of properties		—	(128,912)
Acquisition of associates		—	(26,588)
Acquisition of long term investments		(140,158)	—
Acquisition of short term investments		(119)	(13,758)
Acquisition of additional interests in subsidiaries		(39,200)	(1,629)
Acquisition of additional interests in associates		(12,640)	(95,739)
Deposits paid for long term investments		(2,529)	(10,000)
Deposits paid for acquisition of film rights and domain name		(61,000)	—
Return of capital from associates		56,471	69,676
Loan advances to associates		(27,180)	(49,353)
Proceeds from disposal of subsidiaries	32(d)	1,144,050	—
Proceeds from disposal of fixed assets		—	2,092
Proceeds from disposal of short term investments		4,161	9,280
Proceeds from disposal of properties		213,977	157,746
Proceeds from disposal of associates in 1998		11,055	440,598
Net cash inflow from investing activities		151,763	17,752
NET CASH INFLOW BEFORE FINANCING		249,059	84,895

Consolidated Cash Flow Statement

31st December, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NET CASH INFLOW BEFORE FINANCING — Page 34		<u>249,059</u>	<u>84,895</u>
FINANCING			
Reimbursement from LSD for the principal repayment of the relevant bank loans in respect of the acquisition of an associate	20	—	1,935
Shareholders' loans advanced by minority shareholders	32(b)	32,441	45,587
Repayment of shareholders' loans to minority shareholders	32(b)	—	(49,941)
New bank loans	32(b)	129,304	147,535
Repayment of bank loans	32(b)	(413,566)	(72,279)
Repayment of other borrowings	32(b)	(34)	(3,114)
Increase in cash held in trust	32(b)	(15,082)	—
Release of pledged deposits	32(b)	2,236	3,030
Net cash inflow/(outflow) from financing		<u>(264,701)</u>	<u>72,753</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(15,642)	157,648
Cash and cash equivalents at beginning of year		<u>256,230</u>	<u>98,582</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>240,588</u>	<u>256,230</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		257,795	281,853
Cash held in trust		(15,082)	—
Pledged deposits		—	(2,229)
Bank loans	32(c)	(2,125)	(23,394)
		<u>240,588</u>	<u>256,230</u>

Balance Sheet

31st December, 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NON-CURRENT ASSETS			
Subsidiaries	16	2,781,345	3,683,702
Associates	18	60,000	105,010
		<u>2,841,345</u>	<u>3,788,712</u>
CURRENT ASSETS			
Due from a fellow subsidiary	25	9,299	—
Debtors and deposits		4,054	1,767
Cash and cash equivalents		104,400	111,778
		<u>117,753</u>	<u>113,545</u>
CURRENT LIABILITIES			
Creditors and accruals		840	4,527
		<u>840</u>	<u>4,527</u>
NET CURRENT ASSETS			
		<u>116,913</u>	<u>109,018</u>
		<u>2,958,258</u>	<u>3,897,730</u>
CAPITAL AND RESERVES			
Issued capital	30	182,414	182,414
Reserves	31	2,775,844	3,715,316
		<u>2,958,258</u>	<u>3,897,730</u>

Lien Jown Jing, Vincent
Director

Lee Po On
Director

Notes to Financial Statements

31st December, 1999

1. CORPORATE INFORMATION

The principal activities of the Group during the year were the investments in, and the management of, hotel and restaurant operations and property investments.

In the opinion of the directors, the holding company and the ultimate holding company of the Company are Lai Sun Development Company Limited (“LSD”) and Lai Sun Garment (International) Limited, respectively, both of which are incorporated in Hong Kong.

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

The following Accounting Standards have been adopted for the first time in the preparation of the current year’s consolidated financial statements, together with a summary of their major effects.

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 30, 32 to 33 and 36 respectively, have been revised in accordance with SSAP 1, and a statement of recognised gains and losses, not previously required, is included on page 31. Additional disclosures as required are included in the supporting notes to the financial statements.

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

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

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

Notes to Financial Statements

31st December, 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and 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, 1999. 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.

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the directors, plus goodwill arising on the acquisition of the interests in the associates in so far as it has not already been written off or amortised.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The Company's interests in associates are stated at cost less any provisions for permanent diminutions in values, other than temporary in nature, deemed necessary by the directors.

Notes to Financial Statements

31st December, 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill arising on consolidation

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

Goodwill arising on the acquisition of certain subsidiaries, namely Chains International Hotels Management Limited and Century International Hotels Limited, and associates, namely Delta Hotels Limited, B.W. Hotel L.L.C. and Hotel 57 L.L.C., has been amortised on the straight-line basis over a period of 40 years. Goodwill arising on the acquisition of other subsidiaries and associates is eliminated against reserves at the time of acquisition.

Any impairment in value of goodwill as determined by the directors is charged to the profit and loss account.

On disposal of subsidiaries or associates, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Capital reserve

Capital reserve arising on consolidation represents the excess of the fair value ascribed to the net underlying assets of subsidiaries/associates acquired at the date of acquisition over the purchase consideration paid.

Fixed assets and depreciation

Fixed assets, other than investment properties, hotel properties and construction in progress, are stated at cost less accumulated depreciation and provision for impairment in carrying value. 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 the tangible fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, 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 tangible fixed assets, the expenditure is capitalised as an additional cost thereof.

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%
Leasehold improvements	5% or over the terms of the leases, whichever is shorter
Furniture, fixtures and equipment	5%–20%
Motor vehicles	10%–20%
Computers	10%–20%

Notes to Financial Statements

31st December, 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

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

Construction in progress represents costs incurred in the construction of plant and equipment. Cost comprises construction costs, financing and other related expenses. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account and/or charged to the relevant reserve is the difference between the net sales proceed and the carrying value of the relevant assets.

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

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Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

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

Long term investments

Long term investments comprise non-trading investments in unlisted equity securities intended to be held on a long term basis for an identified long term purpose. Unlisted securities are stated at cost less provisions for impairment in values as determined by the directors.

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

Notes to Financial Statements

31st December, 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to the estimated selling prices less all costs to completion and costs to be incurred in selling. Cost includes the cost of land, construction, financing and other related expenses.

Properties under development intended for other purposes are stated at cost less any provisions for permanent diminutions in values considered necessary by the directors.

Short term investments

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

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete or slow-moving items. Cost for food, beverages, cutlery, linen and supplies is determined on the first-in, first-out basis. Cost for flour is determined on the weighted average basis and comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

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 leasing company are accounted for as operating leases. Rentals applicable to such 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, 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

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

- (a) the operation of hotels and restaurants, when the services are provided;
- (b) hotel, restaurant and other management fee income, in the period in which such management services are rendered;
- (c) guaranteed returns on investment properties, on the straight-line basis over the guarantee period;
- (d) compensation on investments in subsidiaries and associates, when the right to receive the payment is established;
- (e) the sale of flour, 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;
- (f) the sale of short term investments, on the transaction date when the relevant contract is entered into;
- (g) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (h) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (i) dividend income, when the shareholders' right to receive payment is established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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. 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 costs

The Group operates a defined contribution retirement benefits scheme for its employees who are eligible and have elected to participate in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions to the scheme are made based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

Notes to Financial Statements

31st December, 1999

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with as movements in reserve.

Deferred tax

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

Related parties

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

Cash equivalents

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

Notes to Financial Statements

31st December, 1999

4. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		1999 HK\$'000	1998 HK\$'000
Guaranteed returns on investment properties from a fellow subsidiary (<i>note 14</i>)		—	46,792
Guaranteed rental income on investment properties from a fellow subsidiary (<i>note 14</i>)		32,013	16,053
Compensation from LSD (<i>note 20</i>)		7,215	74,169
Management fee income from associates	(i)	2,491	4,515
Rental expense paid to a fellow subsidiary	(ii)	2,420	3,918
Project management fee paid to LSD	(iii)	2,667	2,416
Agency commission fee paid to a fellow subsidiary	(iv)	—	4,366
Hotel management, royalty and marketing fees received from hotels held by certain associates of LSD	(v)	3,793	3,693
Legal fees paid to Boughton Peterson Yang Anderson	(vi)	3,047	1,664
Interest income on deposits paid to Furama Hotel Enterprises Limited (<i>note 21</i>)		108,537	—

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- (i) The management fee income from associates is charged at a monthly fixed amount as agreed, with reference to the time and cost incurred by the Group.
- (ii) Rental is charged by a fellow subsidiary with reference to market rate.
- (iii) The project management fee is charged at 2% on the project development costs incurred.
- (iv) The agency commission fee for 1998 arose from the sales of properties and was charged at 1.5% on the sales considerations plus a HK\$2 million fixed agency fee.
- (v) The hotel management, royalty and marketing fees are charged at certain percentage ranging from 1% to 10% on the gross revenue or operating profits of the hotels.
- (vi) The legal fee was charged by Boughton Peterson Yang Anderson for the legal services rendered to the Group at market rates. Mr. Victor Yang, a director of the Company, is a partner of the firm.

(b) In 1998, pursuant to a sale and purchase agreement entered into between the Company and a fellow subsidiary, the Company acquired a 49.9% equity interest in an associate, Furama International Hoteliers Limited, together with the relevant portion of the shareholders' loans at an aggregate consideration of HK\$105,000,000.

Notes to Financial Statements

31st December, 1999

5. TURNOVER

Turnover, principally comprises hotel and restaurant operating income, hotel management fees and guaranteed rental income on investment properties, are set out below.

	Group	
	1999	1998
	HK\$'000	HK\$'000
Hotel and restaurant operations	333,684	318,999
Hotel management fee income	8,997	34,169
Guaranteed rental income on investment properties	<u>32,013</u>	<u>16,053</u>
	<u>374,694</u>	<u>369,221</u>

Notes to Financial Statements

31st December, 1999

6. LOSS FROM OPERATING ACTIVITIES

	Notes	Group	
		1999 HK\$'000	1998 HK\$'000
This is arrived at after crediting:			
Interest income from:			
Bank deposits		7,232	12,146
Loans		1,233	1,202
Deposits paid to Furama Hotel Enterprises Limited		108,537	—
Net unrealised holding gain/(loss) on short term investments		220	(2,509)
Gain/(loss) on disposal of short term investments, net		2,055	(8,439)
Guaranteed returns on investment properties	14	—	46,792
Compensation on investments in subsidiaries	20	2,459	29,893
Gross rental income		41,453	28,477
Less: Outgoings		(7,134)	(3,577)
Net rental income		<u>34,319</u>	<u>24,900</u>
and after charging:			
Staff costs:			
Wages and salaries (including directors' emoluments — see note 8)		125,915	165,794
Pension contributions		246	1,622
Less: Forfeited contributions		(95)	(141)
Net pension contributions		<u>151</u>	<u>1,481</u>
		<u>126,066</u>	<u>167,275</u>
Amortisation of goodwill on acquisition of:			
Subsidiaries		431	2,383
Associates		116	2,447
Auditors' remuneration		1,556	1,676
Depreciation:			
Owned fixed assets		19,456	33,266
Leased fixed assets		21	38
Loss on disposal of fixed assets		142	239
Provision for loss on dissolution of an associate		—	1,808
Provision for bad and doubtful debts		35,413	5,017
Operating lease rentals in respect of land and buildings		4,512	6,043
Foreign exchange losses/(gains), net		(322)	4,136

At the balance sheet date, there were no forfeited contributions (1998: Nil) available to the Group to reduce its contributions to the retirement benefits scheme in future years.

Notes to Financial Statements

31st December, 1999

7. FINANCE COSTS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	38,015	69,111
Exchange differences arising from retranslation of bank loans and other borrowings	1,565	(995)
Bank charges	3,641	403
	<u>43,221</u>	<u>68,519</u>
Total finance costs	43,221	68,519
Interest capitalised	(4,831)	(11,532)
	<u>38,390</u>	<u>56,987</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to the Listing Rules and Section 5161 of the Companies Ordinance is as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Fees	360	113
Other emoluments:		
Basic salaries, bonuses, housing and other allowances, and benefits in kind	15,041	30,404
	<u>15,401</u>	<u>30,517</u>

Directors' fees of HK\$360,000 (1998: HK\$113,000) were paid to three (1998: two) independent non-executive directors during the year.

Notes to Financial Statements

31st December, 1999

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

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

	Group	
	Number of directors	
	1999	1998
HK\$Nil – HK\$1,000,000	14	12
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	1	0
HK\$4,000,001 – HK\$4,500,000	0	1
HK\$6,000,001 – HK\$6,500,000	0	1
HK\$6,500,001 – HK\$7,000,000	0	0
HK\$7,500,001 – HK\$8,000,000	1	1
HK\$10,000,001 – HK\$10,500,000	0	1
	<u>18</u>	<u>17</u>

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

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No value is included in directors' remuneration in respect of share options granted during the year or subsequent thereto because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Further details of the options granted to the director during the year are set out in note 30 to the financial statements.

(b) Employees' emoluments

The five highest paid employees during the year are five (1998: five) of the directors, details of whose emoluments are set out above.

Notes to Financial Statements

31st December, 1999

9. TAX

No provision for Hong Kong profits tax has been made (1998: Nil) as the Group had no assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	1999	1998
	HK\$'000	HK\$'000
Provision for tax for the year:		
Overseas	4,262	19,455
Prior year's under/(over) provisions:		
Hong Kong	—	(2,797)
Overseas	56	—
	4,318	16,658
Deferred tax (<i>note 22</i>)	—	(5,404)
Overseas associates	331	2,449
	4,649	13,703

Included in the overseas tax provision for the prior year was a corporate tax provision of HK\$17,342,000 of Hotel 57 Corp. I, Inc., a then subsidiary of the Group which held a 50% interest in a partnership, Hotel 57 L.L.C.. As a partner of Hotel 57 L.L.C., Hotel 57 Corp. I, Inc. was responsible for its attributable portion of the United States Federal and State income tax of Hotel 57 L.L.C..

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company during the year is HK\$939,472,000 (1998: net profit of HK\$61,077,000).

The Group's share of aggregate net losses retained by the associates for the year amounted to HK\$2,326,000 (1998: net profits of HK\$59,398,000).

11. DIVIDEND

No dividend was paid or declared in respect of the year. The dividend in 1998 represented an interim dividend paid at Hong Kong 1.0 cent per ordinary share.

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12. LOSS PER SHARE

The calculation of loss per share is based on the net loss attributable to shareholders for the year of HK\$884,751,000 (1998: HK\$49,802,000) and the weighted average of 1,824,143,092 (1998: 1,824,143,092) ordinary shares of the Company in issue during the year.

No diluted loss per share is presented as the exercise of the outstanding warrants and options during the year had an anti-dilutive effect on the basic loss per share.

13. FIXED ASSETS

Group

	31st December, 1998 HK\$'000	Additions HK\$'000	Disposals HK\$'000	Arising on disposal of subsidiaries HK\$'000	Provisions for diminutions in values HK\$'000	Exchange realignments HK\$'000	31st December, 1999 HK\$'000
Cost:							
Hotel properties	2,339,278	15,499	(262,209)	—	(1,138,004)	8,537	963,101
Medium term leasehold land and buildings situated overseas	39,727	—	(251)	(17,209)	—	(1,206)	21,061
Construction in progress	1,914	—	—	(1,915)	—	1	—
Leasehold improvements	24,359	85	(4,892)	—	—	439	19,991
Furniture, fixtures and equipment	280,910	3,256	(12,310)	(35,531)	(19,666)	(1,350)	215,309
Motor vehicles	5,057	—	(458)	(315)	—	(116)	4,168
Computers	9,074	1,439	(224)	(1,437)	—	12	8,864
	<u>2,700,319</u>	<u>20,279</u>	<u>(280,344)</u>	<u>(56,407)</u>	<u>(1,157,670)</u>	<u>6,317</u>	<u>1,232,494</u>
Accumulated depreciation:							
Medium term leasehold land and buildings situated overseas	4,326	539	—	(1,836)	—	(126)	2,903
Leasehold improvements	14,926	1,232	(368)	—	—	33	15,823
Furniture, fixtures and equipment	94,998	16,078	(3,805)	(6,739)	—	(380)	100,152
Motor vehicles	2,598	407	(398)	(243)	—	(89)	2,275
Computers	2,747	1,221	(98)	(373)	—	1	3,498
	<u>119,595</u>	<u>19,477</u>	<u>(4,669)</u>	<u>(9,191)</u>	<u>—</u>	<u>(561)</u>	<u>124,651</u>
Net book value	<u>2,580,724</u>						<u>1,107,843</u>

As at 31st December, 1999, there were no assets held under finance leases. The net book value of assets held under finance leases included in the total amount of fixed assets as at 31st December, 1998 amounted to HK\$90,000. The depreciation charge for the year in respect of such assets amounted to HK\$21,000 (1998: HK\$38,000).

Certain land and buildings were pledged to banks to secure banking facilities.

Notes to Financial Statements

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14. INVESTMENT PROPERTIES

	Group	
	1999 HK\$'000	1998 HK\$'000
At beginning of year, at valuation/cost	483,000	479,919
Additions, at cost	—	31,328
Disposals	(483,000)	—
Deficit on revaluation	—	(28,247)
At end of year, at valuation	—	483,000

The investment properties were situated in Shanghai, the People's Republic of China (the "PRC") and were held under a medium term lease. On 5th March, 1997, a sale and purchase agreement (the "Agreement") was entered into between the Group, through a wholly-owned subsidiary, Good Strategy Limited ("Good Strategy"), and Tiger Hill Limited ("Tiger Hill"), a subsidiary of Lai Sun Development Company Limited ("LSD"), pursuant to which the Group, agreed to acquire, and Tiger Hill agreed, *inter alia*, to procure Shanghai Li Xing Real Estate Development Co., Ltd. ("Li Xing"), a subsidiary of LSD and a fellow subsidiary of the Group, to enter into pre-sale agreements between the Group and Li Xing for the sale of 181 serviced apartment units at the North Tower of the Hong Kong Plaza (the "Hong Kong Plaza Properties"), properties situated in Shanghai, the PRC, at a total consideration of approximately HK\$479,919,000. The construction of the investment properties was completed in December 1997. In 1998, the Company paid HK\$13,063,000 to Li Xing for the additional acquisition of the Hong Kong Plaza Properties.

In connection with the Agreement, Li Xing granted to the Group a guaranteed rental return of 13%, calculated based on the sale consideration, effective for two years commencing in the fourth calendar month immediately following the month in which notice of occupation of the Hong Kong Plaza Properties was issued by Li Xing to the Group (the "Rental Guarantee Date"). Tiger Hill also agreed to pay the Group an amount equivalent to 13% per annum on the consideration paid pursuant to the Agreement from the date next after the completion date of Agreement up to and exclusive of the Rental Guarantee Date. The guaranteed rental returns received and receivable from Li Xing for the year ended 31st December, 1999 were HK\$32,013,000 (1998: HK\$16,053,000). No guaranteed returns were received from Tiger Hill during the year (1998: HK\$46,792,000).

On 11th May, 1999, pursuant to a sale and purchase agreement entered into between the Company and Goldthorpe Limited, a subsidiary of Lai Fung Holdings Limited which in turn is a fellow subsidiary of the Company, the Company disposed of the entire issued share capital of and the shareholder's loan due from Good Strategy, to Goldthorpe Limited at an aggregate consideration of HK\$475,000,000.

Notes to Financial Statements

31st December, 1999

15. LONG TERM INVESTMENTS

	Group	
	1999	1998
	HK\$'000	HK\$'000
Unlisted equity investments, at cost	140,158	—
Provisions for impairment in values	(55,157)	—
	<u>85,001</u>	<u>—</u>

16. SUBSIDIARIES

	Company	
	1999	1998
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,098,625	1,099,312
Amounts due from subsidiaries	2,901,709	2,584,390
	<u>4,000,334</u>	<u>3,683,702</u>
Provisions for diminutions in values	(1,218,989)	—
	<u>2,781,345</u>	<u>3,683,702</u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation or registration/ place of operations	Issued/ registered share capital and class of shares held	Effective % of capital held by		Principal activities
			Company	Group	
Bright Jewel Investments Limited	British Virgin Islands	US\$1 Ordinary	—	100	Investment holding
Chains Caravelle Hotel Joint Venture Company Limited	The Socialist Republic of Vietnam	US\$18,567,734 Legal capital*	—	26	Investment in and operation of a hotel
Diamond String Limited	Hong Kong	HK\$10,000 Ordinary	—	65	Investment in and operation of a hotel

Notes to Financial Statements

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16. SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ place of operations	Issued/ registered share capital and class of shares held	Effective % of capital held by		Principal activities
			Company	Group	
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 in a hotel redevelopment project
Heathfield Limited	British Virgin Islands/ Canada	US\$100 Ordinary	—	100	Investment in and operation of restaurants
Kingswood Shine Limited	British Virgin Islands	US\$1 Ordinary	—	100	Investment holding
Surearn Profits Limited	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding
Spellbinding Holdings Limited	British Virgin Islands	US\$1 Ordinary	100	100	Investment holding

* This subsidiary has no issued share capital and is formed under a joint venture contract.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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, 1999

17. GOODWILL

	Group	
	1999 HK\$'000	1998 HK\$'000
Cost:		
At beginning of year	74,136	97,355
Disposal of subsidiaries	(37,657)	—
Written off	(36,479)	—
Provision for diminution in value	—	(23,219)
	<u>—</u>	<u>(23,219)</u>
At 31st December	<u>—</u>	<u>74,136</u>
Accumulated amortisation:		
At beginning of year	12,864	10,481
Provided for the year	431	2,383
Disposal of subsidiaries	(3,246)	—
Written off	(10,049)	—
	<u>(10,049)</u>	<u>—</u>
At 31st December	<u>—</u>	<u>12,864</u>
Carrying value at 31st December	<u>—</u>	<u>61,272</u>

Notes to Financial Statements

31st December, 1999

18. ASSOCIATES

(a)

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	—	—	3,947	3,947
Share of net assets/(liabilities), other than goodwill	(36,360)	329,041	—	—
Share of goodwill of associates	—	131,612	—	—
Borrowings borne by LSD (note 20)	—	589,296	—	—
Unamortised goodwill	—	13,403	—	—
	(36,360)	1,063,352	3,947	3,947
Amounts due from associates	6	15,718	5	—
Loans to associates, net of provisions	163,118	124,225	102,029	101,063
Amounts due to associates	—	(11,897)	—	—
	126,764	1,191,398	105,981	105,010
Provisions for diminutions in values of associates	(45,702)	—	(45,981)	—
	81,062	1,191,398	60,000	105,010

The balances with associates, including loans to associates, are unsecured, interest-free and have no fixed terms of repayment.

(b)

	Group	
	1999 HK\$'000	1998 HK\$'000
Share of profits less losses of associates	(1,995)	61,847
Compensation received and receivable by the Group from LSD (note 20)	4,756	44,276
Attributable profits less losses related to associates	2,761	106,123

Notes to Financial Statements

31st December, 1999

18. ASSOCIATES (continued)

Details of the principal associates are as follows:

Name of company	Business structure	Place of incorporation/ registration	Class of shares held	% of equity attributable to the Group	Principal activities
Furama International Hoteliers Limited	Corporate	British Virgin Islands	Ordinary	49.9	Investment holding
Indochina Beach Hotel Joint Venture	Corporate	The Socialist Republic of Vietnam	Legal capital*	31.2	Investment in and operation of a hotel
Orwell Investments Pte Ltd.**	Corporate	Singapore	Ordinary	50	Investment in and operation of a golf course

* This company has no issued share capital and is formed under a joint venture contract.

** Not audited by Ernst & Young.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of 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.

Notes to Financial Statements

31st December, 1999

18. ASSOCIATES (continued)

Included in the share of net assets of associates in 1998 was the share of net assets of Hotel 57 L.L.C. and B.W. Hotel L.L.C. which, in the opinion of the directors, were material to the content of the Group's financial statements. These associates were disposed of during the year. Details of the net assets of and the results for these associates as at 31st December, 1998 and for the year then ended, and of the results for these associates for the period from 1st January, 1999 to their respective dates of disposals, after certain adjustments to conform with the Group's accounting policies, are as follows:

	1999 HK\$'000	1998 HK\$'000
Hotel 57 L.L.C.		
Goodwill	—	215,153
Deferred expenditure	—	4,941
Long term receivables	—	5,992
Fixed assets	—	1,385,926
Current assets	—	170,726
Current liabilities	—	(79,662)
Long term liabilities	—	(1,014,090)
	<u>—</u>	<u>688,986</u>
Net assets attributable to the Group	—	344,493
Add: Borrowings borne by LSD (note 20)	—	458,493
	<u>—</u>	<u>802,986</u>
Share of net assets by the Group	—	802,986
	<u>—</u>	<u>802,986</u>
	1999 HK\$'000	1998 HK\$'000
Turnover	119,576	763,888
Depreciation	6,325	21,258
Profit before tax	4,962	126,666
	<u>4,962</u>	<u>126,666</u>
Profit attributable to the Group for the year	2,481	63,333
Add: Compensation received and receivable by the Group from LSD (note 20)	3,687	34,554
	<u>3,687</u>	<u>34,554</u>
Profit related to the associate attributable to the Group for the year	6,168	97,887
	<u>6,168</u>	<u>97,887</u>

Notes to Financial Statements

31st December, 1999

18. ASSOCIATES (continued)

	1999	1998
B.W. Hotel L.L.C.	HK\$'000	HK\$'000
Goodwill	—	80,120
Other long term assets	—	821
Fixed assets	—	941,971
Current assets	—	68,456
Current liabilities	—	(82,233)
Long term liabilities	—	(615,183)
	<u>—</u>	<u>393,952</u>
Net assets attributable to the Group	—	118,185
Add: Borrowings borne by LSD (<i>note 20</i>)	—	130,803
	<u>—</u>	<u>248,988</u>
Share of net assets by the Group	—	248,988
	<u>—</u>	<u>248,988</u>
	1999	1998
	HK\$'000	HK\$'000
Turnover	277,395	240,120
Depreciation	24,577	17,196
Profit before tax	27,623	8,615
	<u>27,623</u>	<u>8,615</u>
Profit attributable to the Group for the year	8,287	2,585
Add: Compensation received and receivable by the Group from LSD (<i>note 20</i>)	1,069	9,722
	<u>1,069</u>	<u>9,722</u>
Profit related to the associate attributable to the Group for the year	9,356	12,307
	<u>9,356</u>	<u>12,307</u>

19. LONG TERM DEPOSITS

Long term deposits in the prior year represented deposits paid for an investment in an associate.

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20. DUE FROM LAI SUN DEVELOPMENT COMPANY LIMITED

	Group	
	1999 HK\$'000	1998 HK\$'000
Due from Lai Sun Development Company Limited	—	382,377

In 1997, the Group acquired certain subsidiaries (the “Subsidiaries”) and certain associates (the “Associates”) from LSD. Under the terms of the acquisitions, by including HK\$1,018,155,000 in the consideration for the acquisitions, LSD agreed to reimburse the Group the principal payments of the bank loans of the Subsidiaries and the Associates attributable to the Group (the “Relevant Loans”) of the same amount. In addition, LSD agreed to compensate the Group for interest made on the Relevant Loans as incurred. It had also been agreed that the guarantees given by LSD to the relevant lenders under the respective loan facilities be continued to be assumed by LSD for so long as such facilities remain outstanding.

Due from LSD at 31st December, 1998 comprised the principal portion of the Relevant Loans of the Subsidiaries of HK\$382,084,000 and compensation receivable on the related loan interest charge of HK\$293,000. Borrowings borne by LSD at 31st December, 1998 of HK\$589,296,000 (note 18) comprised the principal portion of the Relevant Loans of the Associates of HK\$582,571,000 and compensation receivable on the related loan interest charge of HK\$6,725,000.

As further detailed in note 21, the amount due from LSD was offset during the year against the deposits paid to Furama Hotel Enterprises Limited (“FHEL”). No reimbursement was received from LSD for the principal repayment of the Relevant Loans of the Subsidiaries and of the Associates in 1999. In 1998, no reimbursement was received from LSD for the principal repayment of the Relevant Loans of the Subsidiaries but HK\$1,935,000 was received from LSD for the principal repayment of the Relevant Loans of the Associates.

Compensation received and receivable during the year in respect of the Relevant Loans of the Subsidiaries and the Associates was HK\$2,459,000 (1998: HK\$29,893,000) and HK\$4,756,000 (1998: HK\$44,276,000), respectively.

21. DEPOSITS PAID TO FURAMA HOTEL ENTERPRISES LIMITED

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 redevelopment of the Furama Hotel Hong Kong (the “Furama Hotel”), which is a property situated in Hong Kong. Pursuant to the Development Agreement, the Furama Hotel will be redeveloped into a composite retail, hotel and office building (the “New Building”) which is expected to be completed in or around May 2004.

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21. DEPOSITS PAID TO FURAMA HOTEL ENTERPRISES LIMITED

(continued)

Upon the completion of the redevelopment of the New Building, GPEL will purchase the retail and hotel portions (collectively, the "Hotel Portions") from FHEL for a consideration of HK\$1,900 million. In addition, GPEL may request LSD to carry out the possible fitting out works of the Hotel Portions for a consideration of HK\$250 million, subject to LSD's agreeing to carry out such works.

The Development Agreement provided that upon the occurrence of certain events, if FHEL notifies GPEL in writing that it does not intend to carry out the redevelopment works or the progress of the redevelopment is not in accordance with the timetable as stated in the Development Agreement, at a consideration of HK\$10, FHEL will grant to GPEL an option to purchase the Furama Hotel (the "Furama Option"). The Furama Option will only be valid for a period of six months commencing from the date on which the relevant events occur. The purchase price will be equal to the open market value of the Furama Hotel as at the date of exercise of the Furama Option, as determined by independent valuers who will be appointed jointly by GPEL and FHEL. The exercise of the Furama Option is subject to the approval of the independent shareholders of the respective companies as required under the Listing Rules.

The acquisition of the Hotel Portions by GPEL has been approved by the independent shareholders of the Company and LSD in their respective special general meetings held on 22nd March, 1999. The consideration for the Hotel Portions has been fully paid by GPEL to FHEL as at the balance sheet date. HK\$965 million of the prepaid consideration was satisfied by the Company releasing LSD from its obligation to reimburse the Relevant Loans as set out in note 20 to the financial statements. The remaining HK\$935 million was settled by cash. According to the Development Agreement, the prepaid consideration is interest bearing, with interest charged at the higher of 8% or LIBOR plus 2% per annum for the HK\$965 million, and at the three month deposit rate offered by the Group's principal bank plus 1% per annum for the HK\$935 million. The interest income received or receivable during the year was HK\$108,537,000.

On 23rd February, 2000, FHEL entered into heads of agreement ("Heads of Agreement") with Southwold Limited ("Southwold"), a 35% owned associate of LSD, pursuant to which FHEL conditionally agreed to sell the Furama Hotel to Southwold. The remaining 65% of Southwold is owned by Century West International Limited, a company jointly held by Pidemco Land (HK) Pte. Ltd. and American International Assurance Company (Bermuda) Limited. The sale of the Furama Hotel is subject to, among other things (i) the cancellation of the Development Agreement and (ii) the approval of the respective shareholders of LSG, LSD and the Company.

The Heads of Agreement was cancelled on 24th March, 2000, and was replaced by a sale and purchase agreement (the "Sale & Purchase Agreement") which was entered into on the same date.

The directors of the Company are still considering the effect on the Company of LSD's entering into the Sale & Purchase Agreement, and the rights and options of the Company under the Development Agreement and upon the cancellation of the Development Agreement. Negotiation with LSD and FHEL with respect to the terms of the cancellation of the Development Agreement is underway as at the report date. The directors have not finalised on the basis on which the Development Agreement will be cancelled.

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22. DEFERRED TAX ASSETS

The principal components of the net deferred tax assets recognised at the balance sheet date mainly comprised capital allowances on fixed assets and certain accrued ground lease and interest expenses.

	Group	
	1999 HK\$'000	1998 HK\$'000
At beginning of year	7,873	2,470
Deferred tax credit (<i>note 9</i>)	—	5,404
Arising on disposal of a subsidiary	(6,566)	—
Exchange realignment	90	(1)
	<u>1,397</u>	<u>7,873</u>

The principal components of the net deferred tax asset/(liability) position not recognised are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Accelerated capital allowances on fixed assets	4,013	8,168
Tax losses available for carryforward	26,046	65,918
Others	—	(14)
	<u>30,059</u>	<u>74,072</u>

23. LONG TERM RECEIVABLES

The balances represent the long term portion of receivables arising from the disposals of group companies not realisable within twelve months from the balance sheet date.

24. SHORT TERM INVESTMENTS

	Group	
	1999 HK\$'000	1998 HK\$'000
Listed equity investments at market value:		
Hong Kong	424	2,310
Elsewhere	119	—
	<u>543</u>	<u>2,310</u>

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25. DUE FROM FELLOW SUBSIDIARIES

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Interest receivable from FHEL (note 21)	20,169	—	—	—
Guaranteed rental returns receivable from Li Xing (note 14)	9,299	7,878	9,299	—
Others	—	441	—	—
	<u>29,468</u>	<u>8,319</u>	<u>9,299</u>	<u>—</u>

26. STOCKS

	Group	
	1999 HK\$'000	1998 HK\$'000
Raw materials	5,735	9,622
Work in progress	180	231
Finished goods	7,659	9,609
	<u>13,574</u>	<u>19,462</u>

27. DUE FROM WHISTLER MOUNTAIN INN, LIMITED PARTNERSHIP

The balance due represents the net realisable value of the share of net assets, other than fixed assets, receivable from the dissolution of the Whistler Mountain Inn, Limited Partnership (note 33(b)).

With respect to the dissolution of the Whistler Mountain Inn, Limited Partnership (the "Partnership") during the year, an amount of HK\$15,082,000 (1998: Nil) was held in trust as at 31st December, 1999 pending the settlement of all damages, including interest, relating to a litigation in respect of the Partnership (note 33(b)).

28. PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

The balance in the prior year represented properties under development held for sale situated in Canada. The properties were disposed of in 1999.

In the prior year, properties under development held for sale were charged as security for available bank facilities amounting to approximately HK\$316,071,000, of which HK\$179,330,000 was utilised at 31st December, 1998.

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29. INTEREST-BEARING BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group	
	1999 HK\$'000	1998 HK\$'000
Bank loans and overdrafts:		
Secured	336,539	845,978
Unsecured	3,542	21,523
Other borrowings, secured	—	1,590
	<u>340,081</u>	<u>869,091</u>
Portion due within one year classified as current liabilities	<u>(107,252)</u>	<u>(564,064)</u>
Long term portion	<u>232,829</u>	<u>305,027</u>
The long term portion of bank loans are repayable over:		
More than one year, but not exceeding two years	97,701	80,515
More than two years, but not exceeding five years	<u>135,128</u>	<u>224,512</u>
	<u>232,829</u>	<u>305,027</u>

The secured bank loans are secured by fixed charges on certain properties of the Group. In 1998, such bank loans and overdrafts were also secured by various debentures totalling HK\$150,510,000 at 31st December, 1998.

In 1998, the secured other borrowings were secured by bank deposits of approximately HK\$2,229,000 at 31st December, 1998. Interest was charged at 5.93% per annum.

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30. ISSUED CAPITAL

	1999		1998	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>3,000,000</u>	<u>300,000</u>	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.10 each	<u>1,824,143</u>	<u>182,414</u>	<u>1,824,143</u>	<u>182,414</u>

Share options

Pursuant to a share option scheme adopted by the Company on 25th November, 1996, the directors may, at their discretion, grant options to the executive directors and employees of the Company or any of its subsidiaries, to subscribe for ordinary shares in the Company.

During the year, the Company granted 10,000,000 share options for a cash consideration of HK\$10 to an executive director. Under the present capital structure, the exercise in full of these options entitle him to subscribe for 10,000,000 ordinary shares of the Company of HK\$0.10 each at an exercise price of HK\$0.50 each. No options may be exercised within six months after the date of grant and the options are exercisable within two years thereafter. No share options were exercised during the year.

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Warrants

During the year, no warrants were exercised by the warrant holders. The unexercised warrants expired on 30th April, 1999.

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31. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 1998	2,789,957	891,289	160,533	598	(43,549)	3,798,828
Capital and exchange reserves released upon disposal of associates	—	—	(23,855)	—	18,850	(5,005)
Arising on acquisitions of: Additional interests in subsidiaries	—	—	(4,553)	—	—	(4,553)
Associates	—	—	(36,323)	—	—	(36,323)
Exchange realignments	—	—	—	—	(27,824)	(27,824)
Loss for the year	—	—	—	—	(49,802)	(49,802)
Interim dividend	—	—	—	—	(18,241)	(18,241)
At 31st December, 1998 and 1st January, 1999	2,789,957	891,289	95,802	598	(120,566)	3,657,080
Capital and exchange reserves released upon disposal of subsidiaries	—	—	15,382	—	26,966	42,348
Exchange reserve released upon disposal of properties	—	—	—	—	97,089	97,089
Arising on acquisitions of additional interests in: Subsidiaries	—	—	(77,239)	—	—	(77,239)
Associates	—	—	(32,350)	—	—	(32,350)
Released upon provisions for diminutions in value of fixed assets	—	—	(127,200)	—	—	(127,200)
Capital, general and exchange reserves released upon provisions for diminutions in values of associates	—	—	68,673	(598)	2,447	70,522
Write off of goodwill	—	—	56,932	—	—	56,932
Exchange realignments	—	—	—	—	12,759	12,759
Loss for the year	—	—	—	—	(884,751)	(884,751)
At 31st December, 1999	2,789,957	891,289	—	—	(866,056)	2,815,190
Retained by: Company and subsidiaries	2,789,957	891,289	—	—	(848,996)	2,832,250
Associates	—	—	—	—	(17,060)	(17,060)
31st December, 1999	2,789,957	891,289	—	—	(866,056)	2,815,190
Company and subsidiaries	2,789,957	891,289	95,802	—	(220,893)	3,556,155
Associates	—	—	—	598	100,327	100,925
31st December, 1998	2,789,957	891,289	95,802	598	(120,566)	3,657,080

Included in the debit balance of accumulated losses as at 31st December, 1999 are accumulated credit balances in respect of exchange realignments amounting to HK\$18,266,000 (1998: debit balances of HK\$120,995,000).

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 during the Group reorganisation in November 1996.

Notes to Financial Statements

31st December, 1999

31. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 1998	2,789,957	845,455	37,068	3,672,480
Profit for the year	—	—	61,077	61,077
Interim dividend	—	—	(18,241)	(18,241)
At 31st December, 1998 and 1st January, 1999	2,789,957	845,455	79,904	3,715,316
Loss for the year	—	—	(939,472)	(939,472)
At 31st December, 1999	2,789,957	845,455	(859,568)	2,775,844

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. Under the Companies Act 1981 of Bermuda (as amended), distribution may be made out of the contributed surplus in certain circumstances.

Notes to Financial Statements

31st December, 1999

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operation activities to net cash inflow from operating activities

	Group	
	1999 HK\$'000	1998 HK\$'000
Loss from operating activities	(1,286,573)	(110,267)
Interest income	(117,002)	(13,348)
Depreciation	19,477	33,304
Provisions for diminutions in values of associates	116,224	—
Net loss on investments in associates	—	25,466
Write off of goodwill	83,362	—
Provision for diminution in value on goodwill (<i>note 17</i>)	—	23,219
Provisions against the carrying values of properties under development to net realisable values and losses on disposal of properties	158,645	61,365
Provisions for diminutions in values of fixed assets	1,030,470	—
Provisions for impairment in value of long term investments	55,157	—
Net gain on disposal of subsidiaries	(58,306)	—
Revaluation deficit on investment properties	—	28,247
Provision for loss on dissolution of an associate	—	1,808
Loss on disposal of fixed assets	142	239
Amortisation of goodwill on acquisition of subsidiaries and associates	547	4,830
Net unrealised holding loss/(gain) on short term investments	(220)	2,509
Loss/(gain) on disposal of short term investments, net	(2,055)	8,439
Provision for bad and doubtful debts	35,413	5,017
Compensation on investments in subsidiaries	(2,459)	(29,893)
Increase in net amounts due from associates	(4,025)	(11,730)
Decrease in debtors and deposits	29,352	90,945
Increase in amounts due from fellow subsidiaries	(980)	(8,319)
Decrease in amount due from Whistler Mountain Inn, Limited Partnership	17,871	—
Decrease in stocks	506	10,874
Decrease in creditors and accruals	(41,550)	(4,721)
Net cash inflow from operating activities	<u>33,996</u>	<u>117,984</u>

Notes to Financial Statements

31st December, 1999

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

(b) Analysis of changes in financing during the year

	Share capital (including premium) HK\$'000	Bank loans, cash held in trust, deposits pledged, and other borrowings* HK\$'000	Due from LSD HK\$'000	Minority interests HK\$'000
Balance at 1st January, 1998	2,972,371	778,904	(382,690)	778,874
Net cash inflow/(outflow) from financing	—	75,172	—	(4,354)
Share of net loss for the year	—	—	—	(25,032)
Additional investment in subsidiaries	—	—	—	2,924
Dividend paid to minority shareholders	—	—	—	(6,762)
Compensation on investments in subsidiaries	—	—	(29,893)	—
Compensation received on investments in subsidiaries	—	—	30,082	—
Exchange realignments	—	(10,608)	124	(2,309)
Balance at 31st December, 1998 and 1st January, 1999	2,972,371	843,468	(382,377)	743,341
Net cash inflow/(outflow) from financing	—	(297,142)	—	32,441
Share of net loss for the year	—	—	—	(442,100)
Arising on disposal of subsidiaries	—	(238,305)	—	(32,523)
Arising on acquisition of additional interest in subsidiaries	—	—	—	38,039
Compensation on investments in subsidiaries	—	—	(2,459)	—
Compensation received on investments in subsidiaries	—	—	2,751	—
Reclassification of amount due from LSD to deposit paid to FHEL	—	—	382,190	—
Exchange realignments	—	14,853	(105)	(444)
Balance at 31st December, 1999	2,972,371	322,874	—	338,754

* excluding bank loans with less than three months to maturity.

Notes to Financial Statements

31st December, 1999

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

(c) Reconciliation of the balance of cash and cash equivalents in respect of short term bank loans

	1999 HK\$'000	1998 HK\$'000
Short term bank loans	107,252	562,474
Bank loans with over three months to maturity	<u>(105,127)</u>	<u>(539,080)</u>
Bank loans with less than three months to maturity	<u>2,125</u>	<u>23,394</u>

(d) Disposal of subsidiaries

	1999 HK\$'000	1998 HK\$'000
Net assets disposed of:		
Fixed assets	47,216	—
Investment properties	483,000	—
Goodwill	34,411	—
Associates	429,898	—
Deferred tax assets	6,566	—
Cash and cash equivalents	9,139	—
Debtors and deposits	29,125	—
Stocks	5,702	—
Properties under development held for sale	435,284	—
Bank loans and other borrowings	(259,359)	—
Creditors and accruals	(32,636)	—
Tax payable	(56)	—
Minority interests	(32,523)	—
Release of exchange reserve	26,966	—
Release of capital reserve	<u>15,382</u>	<u>—</u>
	1,198,115	—
Gain on disposal	<u>58,306</u>	<u>—</u>
	<u>1,256,421</u>	<u>—</u>
Satisfied by:		
Cash	1,132,135	—
Receivables	<u>124,286</u>	<u>—</u>
	<u>1,256,421</u>	<u>—</u>

Notes to Financial Statements

31st December, 1999

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

(d) Disposal of subsidiaries (continued)

The subsidiaries disposed of during the year contributed HK\$1,513,000 (1998: Nil) to the Group's net operating cash flows, paid HK\$5,591,000 (1998: Nil) in respect of returns on investments and servicing of finance, paid HK\$4,949,000 (1998: Nil) in respect of tax, contributed HK\$16,639,000 (1998: Nil) for investing activities and utilised HK\$118,426,000 (1998: Nil) for financing activities.

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

	1999 HK\$'000	1998 HK\$'000
Cash consideration received	1,132,135	—
Cash and bank balances disposed of	(9,139)	—
Bank loans disposed of with maturity within three months from the date of advance	<u>21,054</u>	<u>—</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>1,144,050</u>	<u>—</u>

(e) Major non-cash transaction

During the year, the deposit of HK\$965 million relating to the acquisition of the Hotel Portions of the Furama Hotel was satisfied by the Group releasing LSD from its obligation of reimbursing the Relevant Loans (*note 21*).

33. LITIGATION

(a) Actions were commenced in December 1998 in the Supreme Court of New York (the "New York Court") and in early 1999 in the United States District Court in Texas (the "Texas Court") against certain companies of the Group, the other shareholders of Hotel 57 L.L.C. (the "Shareholders") and 57 BB Property, L.L.C., the purchaser of the Four Seasons Hotel, New York ("FSNY"), by Art 57 Properties, Inc. (the "Plaintiff"), alleging breach of contract, fraud and promissory estoppel. The Plaintiff claimed that it had made a down payment of US\$2 million and signed a letter of intent to purchase the FSNY. By way of relief, the Plaintiff sought specific performance requiring the sale of shares (the "Shares") in entirety, the effect of which would convey beneficial ownership of the FSNY to the Plaintiff or, alternatively, damages in an amount of not less than US\$80 million. Simultaneously, the Plaintiff filed a motion for a preliminary injunction seeking to prevent the sale of the Shares or, to attach the proceeds from any sale of the Shares pending final disposition of the case.

Notes to Financial Statements

31st December, 1999

33. LITIGATION (continued)

In February 1999, the New York Court denied the motion that the Plaintiff initiated in early 1999 to discontinue the New York proceedings. The New York Court also dismissed all claims against the companies of the Group, except for Milewood International Inc., a 99.99% owned subsidiary of the Group, and certain Shareholders of FSNY. In March 2000, several of the Plaintiff's claims were further dismissed by the New York Court.

In March 1999, the Texas Court dismissed all of the claims against all of the defendants. An appeal was filed by the Plaintiff. In April 2000, the Texas Court dismissed the Plaintiff's appeal.

Having considered the advice from legal counsel, the directors consider that the Group has substantial defenses to the current litigation such that the remaining claims should be dismissed and that the litigation should have no material adverse effect to the Group.

- (b) The Group has been involved in litigation in the Canadian Court in respect of an allegation by certain limited partners (the "Plaintiffs") of the Whistler Mountain Inn, Limited Partnership (the "Partnership") that Village Gate Resorts Limited, a subsidiary of the Group as the general partner of the Partnership, was in material default of the limited partnership agreement. The Plaintiffs sought to have the Partnership dissolved.

Under a judgment rendered by the Court of Appeal of British Columbia in November 1997, and pursuant to an extraordinary resolution passed by the limited partners of the Partnership on 14th November, 1997, the Partnership was effectively dissolved on 31st December, 1998.

In January 1999, the Supreme Court of British Columbia awarded damages plus interest amounting to C\$3,385,000 to the limited partners of the Partnership in respect of two injunctions previously granted by the Court that had stayed the dissolution of the Partnership. The award represents the estimated lost income to the limited partners for the period from 16th March, 1989 to 14th November, 1997. The Plaintiffs were awarded damages of approximately C\$1,538,000 of the foregoing amount which represented their attributable interest in the Partnership plus interest. The directors considered that the Court's decision was unfair, and an appeal was filed against the Court's decision. The appeal was dismissed.

The Group has received from LSD and Mr. Peter Lam, a director of the Company, an indemnity against any loss which the Group might suffer in the event that the Plaintiffs are successful in pursuing their claims. Accordingly, no provision in respect thereof was made in the financial statements.

- (c) On 14th March, 2000, the directors of the Company announced that, in light of the Group's increasing focus on Internet and technology-related businesses and the relative decrease of its emphasis on hotel investments, shareholders approval will be sought to change the name of the Company to eSun.com Holdings Limited to reflect the change in principal business direction of the Group.

Notes to Financial Statements

31st December, 1999

33. LITIGATION (continued)

Legal proceedings were commenced against the Company on 20th March, 2000 by Sun Microsystems Inc. (the "Plaintiff"), a corporation organised and existing under the laws of the State of Delaware, the United States of America. The writ claims, among other things, an injunction to restrain the Company from allegedly passing off its business as the business of the Plaintiff by using the name "eSun.com" or any name or mark or domain name containing "eSUN", "esun" or "eSun" as its dominant feature other than as part of the name "Lai Sun". A hearing in relation to an application for an interim injunction sought by the Plaintiff was held in April 2000. The judgement has not yet been obtained at the date of approval of the financial statements. Having considered the advice from legal counsel, the directors consider that the Group has substantial defenses to the claims made by the Plaintiff.

34. COMMITMENTS

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

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Capital commitments contracted, but not provided for	—	90,789	—	—
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:				
Within one year	43	1,023	—	—
In the second to fifth years, inclusive	3,422	256	—	—
After five years	—	1,541	—	—
	3,465	2,820	—	—

Notes to Financial Statements

31st December, 1999

35. CONTINGENT LIABILITIES

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

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Guarantees given to third parties in connection with restaurant operations	460	1,149	—	—
Guarantee given to a third party in connection with a property under development for sale	—	941	—	—
Guarantee given to a bank in connection with a bank facility granted to a subsidiary	—	—	—	179,330
	460	2,090	—	179,330

In 1998, a counter guarantee was given by the Company to LSD in respect of a guarantee given by LSD on the interest payment for a bank loan facility granted to an associate. At 31st December, 1998, the bank loan utilised by the associate attributable to the Group was HK\$29,927,000. The associate was disposed of in the current year and therefore the counter guarantee was terminated in the current year.

36. SUBSEQUENT EVENTS

- (a) On 12th February, 2000, the Company granted 57,000,000 share options under the employee share option scheme of the Company for a total cash consideration of HK\$60 in favour of four executive directors and two employees. The options entitle the grantees to subscribe for ordinary shares in the Company of HK\$0.10 per share at an exercise price of HK\$0.61 per share. On 4th March, 2000, the Company granted 45,000,000 share options for a total cash consideration of HK\$30 in favour of two executive directors and one employee. The options entitle the grantees to subscribe for ordinary shares of the Company of HK\$0.10 per share at an exercise price of HK\$1.40 per share.

No options may be exercised within six months from the date of grant and the options are exercisable within the periods as detailed below.

- (i) 9,250,000 share options are exercisable during each of the periods from 13th August, 2000 to 12th February, 2001, 13th February, 2001 to 12th August, 2001, 13th August, 2001 to 12th February, 2002, and 13th February, 2002 to 12th August, 2002.
- (ii) 20,000,000 share options are exercisable during the period from 13th August, 2000 to 12th August, 2002.
- (iii) 45,000,000 share options are exercisable during the period from 5th September, 2000 to 4th September, 2002.

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31st December, 1999

36. SUBSEQUENT EVENTS (continued)

On 4th March, 2000, an executive director exercised the share options to subscribe for 4,000,000 ordinary shares in the Company of HK\$0.10 per share at an exercise price of HK\$0.50 per share. The cash consideration of HK\$2,000,000 was used as additional working capital of the Group.

- (b) On 10th March, 2000, a conditional share purchase agreement (the "Agreement") was entered into between Houseman International Limited ("Houseman"), which is a 50% associate of the Group and Asia Television Limited (the "Vendor"). Pursuant to the Agreement, the Vendor agreed to dispose of 50% of the issued share capital of HKATV.com Limited ("HKATV.com") to Houseman for an aggregate consideration of HK\$300,000,000. The Group's share of the aggregate consideration is to be satisfied by cash of HK\$150,000,000. As at the date of approval of these financial statements, HK\$15,000,000 has been paid by the Group as deposit. HKATV.com is a wholly-owned subsidiary of the Vendor, established for the purpose of carrying on the business of creating, developing and maintaining the hkatv.com website and exploiting certain programme rights through or in connection with such website and the Internet worldwide. The transaction is expected to be completed in May 2000.
- (c) The Company entered into a non-legally binding term sheet with Softbank Investment International (Strategic) Limited ("Softbank Investment") (formally known as Cheung Wah Development Company Limited) on 10th March, 2000 regarding the proposed subscription of 13,512,170 ordinary shares in Softbank Investment by the Company for a consideration of 101,341,278 ordinary shares in the Company and the granting of an option to Softbank Investment to subscribe for an additional 101,341,278 ordinary shares in the Company. The proposed share exchange is subject to a definitive agreement to be entered into between the Company and Softbank Investment.
- (d) On 15th December, 1999, the Company and its indirect wholly-owned subsidiary entered into a joint venture agreement with China Star Entertainment Limited ("CSE") and its wholly-owned subsidiary, China Star Entertainment (BVI) Limited, to form a joint venture company for the purpose of commercially exploiting the rights to certain films and television dramas. The Group was to contribute HK\$110 million to the joint venture company to be paid in three instalments, of which two instalments totalling HK\$61 million had been paid prior to the balance sheet date.

Pursuant to a purchase agreement of the same date, the joint venture company would acquire the right to the domain name "ChinaStarWebTV.com" and the rights to about 400 films and 396 hours of television dramas.

On 13th April, 2000, the Company, CSE and their respective subsidiaries which are parties to the foregoing agreements, entered into a termination agreement to the joint venture agreement and all the other agreements relating to the joint venture. Accordingly, the aggregate amount of HK\$61 million paid by the Group under the purchase agreement was repaid by CSE.

Notes to Financial Statements

31st December, 1999

37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with new requirements. Accordingly, certain comparative amounts have been reclassified to conform to the current year's presentation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 27th April, 2000.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at Chater Rooms I and II, Basement 1, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Thursday, 29th June, 2000 at 9:00 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, 1999.
2. To re-elect Directors and to fix their remuneration.
3. To appoint Auditors and to authorise the Directors to fix their remuneration.
4. As special businesses, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

(A) **“THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) 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.”

Notice of Annual General Meeting

(B) **“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 employees of the Company and/or any of its subsidiaries 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
- (d) for the purposes of this Resolution,

“Relevant Period” shall have the meaning assigned to it under Ordinary Resolution No. 4(A) set out in the Notice convening this Meeting.

“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).”

- (C) **“THAT,** subject to the passing of Ordinary Resolutions No. 4(A) and No. 4(B) in the Notice convening the Meeting, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby

Notice of Annual General Meeting

extended by addition thereto of an amount representing the aggregate number of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the aggregate number of shares in the share capital of the Company in issue as at the date of this Resolution.”

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 27th April, 2000

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 1601 Hutchison House, 10 Harcourt Road, Central, 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) A circular containing details regarding Ordinary Resolutions No. 4(A) to No. 4(C) above will be sent to Members of the Company together with the 1999 Annual Report.