# LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

(Stock code: 1125)

Annual Report 2006-2007

## Contents






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*Stock code on Hong Kong Stock Exchange: 1125*

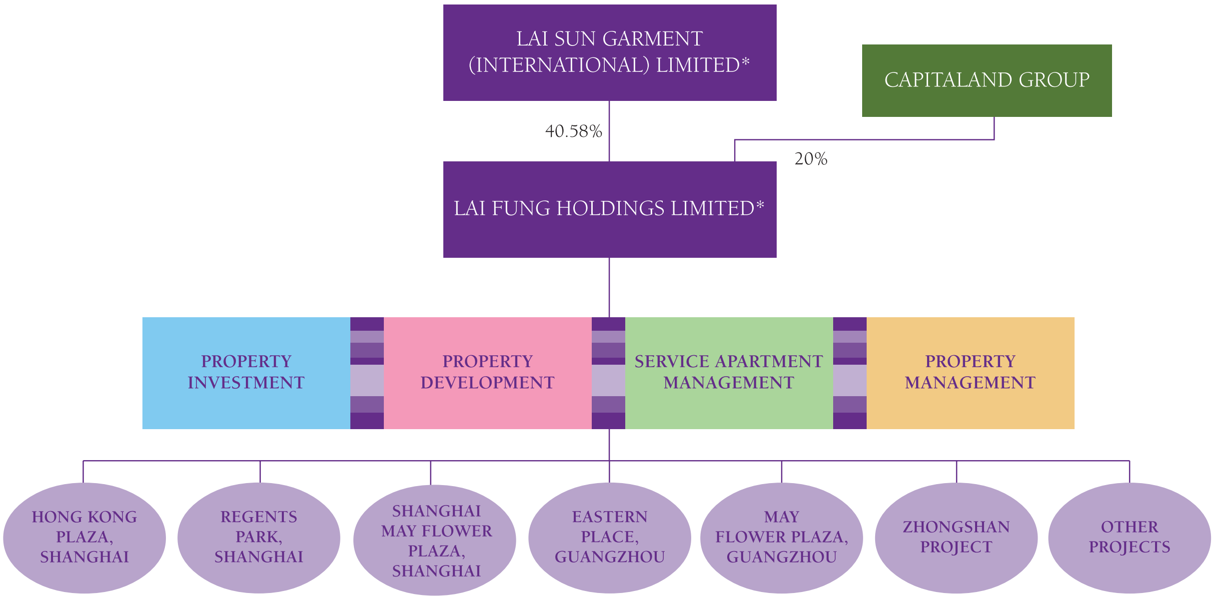
# Corporate Profile

Lai Fung Holdings Limited ("Lai Fung") is a member of the Lai Sun Group and was listed on The Stock Exchange of Hong Kong Limited in November 1997. Lai Fung is the property development and investment arm of the Lai Sun Group in the Mainland of China ("China").

Lai Fung's core businesses include the investment and development of service apartments, residential, office and commercial properties in prime locations in major gateway cities in China with excellent accessibility and infrastructure.

Placing its focus on high economic growth cities such as Shanghai and Guangzhou, Lai Fung has developed a number of major projects, including the prestigious Hong Kong Plaza in Shanghai and Eastern Place in Guangzhou.

With over ten years of extensive experience in and in-depth knowledge of property development in China, Lai Fung is well poised to benefit from the growing demand for quality properties under the booming China economy.




* *Listed on Main Board of Hong Kong Stock Exchange*

# Corporate Information

**Place of Incorporation**
Cayman Islands

**Directors**
Lam Kin Ngok, Peter *(Chairman)*
Lam Kin Ming *(Deputy Chairman)*
Lam Kin Hong, Matthew
*(Executive Deputy Chairman)*
Lam Hau Yin, Lester *(Chief Executive Officer)*
U Po Chu
Lau Shu Yan, Julius
Tam Kin Man, Kraven
Cheung Sum, Sam
Leung Churk Yin, Jeanny
Cheng Shin How
Lim Ming Yan
Cheong Kwok Mun
*(Alternate Director to Lim Ming Yan)*
Wong Yee Sui, Andrew
Lam Bing Kwan
Ku Moon Lun

**Registered Office**
Ugland House
South Church Street
P.O.Box 309, George Town
Grand Cayman, Cayman Islands
British West Indies

**Secretary and Principal Place of Business in Hong Kong**
Yeung Kam Hoi
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon, Hong Kong

**Qualified Accountant**
Hui Hon Pong

**Share Registrars in Hong Kong**
Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

**Auditors**
Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

**Solicitors**
*As to Hong Kong law:*
Vincent T.K.Cheung, Yap & Co.
15th Floor, Alexandra House
18 Chater Road, Central
Hong Kong

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

Linklaters
10th Floor, Alexandra House
18 Chater Road, Central
Hong Kong

*As to Cayman Islands law:*
Maples and Calder Asia
1504 One International Finance Centre
1 Harbour View Street, Central
Hong Kong

**Principal Bankers**
China CITIC Bank Corporation Limited
China Construction Bank Corporation
CITIC Ka Wah Bank Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

# Chairman's Statement

*Chairman* LAM Kin Ngok, Peter

## RESULTS



For the year ended 31 July 2007, the Group recorded a turnover of HK$792,420,000 (2006: HK$703,352,000) and a gross profit of HK$425,309,000 (2006 (restated): HK$374,737,000), representing an increase of approximately 13% and 13% respectively from previous year. The Group achieved a profit from operating activities of HK$585,752,000 (2006 (restated): HK$360,596,000) and a profit attributable to equity holders of the Company of HK$470,351,000 (2006: HK$132,745,000), representing an increase of approximately 62% and 254% respectively from previous year.

The increase in profit from operating activities and profit attributable to equity holders of the Company was mainly attributable to higher turnover, higher revaluation gain on investment properties of the Group and in associated companies, and write back of provision on deferred corporate income tax as a result of adjustment in the corporate income tax rate in the Mainland of China ("China").

Basic earnings per share were 5.84 HK cents for the year ended 31 July 2007 compared to 2.15 HK cents for the previous year.

Shareholders' equity as at 31 July 2007 amounted to HK$5,955,983,000 up from HK$5,245,835,000 as at 31 July 2006. Net asset value per share attributable to equity holders of the Company was HK$0.74 as at 31 July 2007, as compared to HK$0.65 as at 31 July 2006.

# Chairman's Statement

## FINAL DIVIDEND

The Board of Directors has recommended the payment of a final dividend of 0.4 HK cent per ordinary share for the year ended 31 July 2007 (2006: 0.1 HK cent). If approved at the Annual General Meeting of the Company, the dividend will be payable on 7 January 2008.

## BUSINESS REVIEW

**Investment properties**

*Property rental results*

During the year ended 31 July 2007, the Group recorded a turnover of HK$221,073,000 from rental income. Breakdown of turnover from rental income is as follows:

| | Year ended 31 July | | |
|---|---|---|---|
| | **2007** | 2006 | Change |
| | **HK$** | HK$ | |
| **Shanghai** | | | |
| Hong Kong Plaza | **174,456,000** | 157,876,000 | +11% |
| **Guangzhou** | | | |
| May Flower Plaza | **46,617,000** | 39,745,000 | +17% |
| **Total** | **221,073,000** | 197,621,000 | +12% |

**Development properties**

*Property sales results*

| | Approximate contracted sales area | Approximate average contracted selling price* | Approximate contracted total sales amount* |
|---|---|---|---|
| | sq.m. | HK$/sq.m. | HK$ |
| **Shanghai** | | | |
| Regents Park, Phase I | 5,400 | 17,900 | 96,840,000 |
| **Guangzhou** | | | |
| Eastern Place, Phase IV | 36,900 | 10,700 | 393,481,000 |
| Eastern Place, Phases I, II and III | | | 6,905,000 |
| Eastern Place car parks | | | 74,121,000 |
| **Total** | | | 571,347,000 |

* *After business tax*

# Chairman's Statement

During the year ended 31 July 2007, the Group concluded total contracted sales area of approximately 5,400 sq.m. on the remaining units of Regents Park Phase I. In addition, the Group sold 291 car parks in Eastern Place at an average price (before business tax) of RMB268,000 per car park. The units in Eastern Place Phase IV were sold in 2006 and the revenue and profit were recognised in this financial year.

## MARKET OVERVIEW AND OPERATING ENVIRONMENT

The Group is principally engaged in property development for sale and property investment for rental purposes in China. The Group currently has property projects in Shanghai, Guangzhou and Zhongshan.

China's economy continued its rapid growth and achieved a GDP growth of 10.7% in 2006 and is broadly expected to achieve GDP growth of around 10% in 2007. The resilient economic growth, stable increase in average income per capita and the expectation of Renminbi appreciation would support the growth of urban property market in China.

In the past two years, the central and local governments of China strengthened control over the property sector. These measures are expected to (i) tighten property financing, impose stringent land management controls, stabilise property prices, rationalise property supply structure and tighten credit supply; (ii) reinforce tax management, in particular, the central government announced the measures to strictly enforce the collection and settlement of land appreciation tax; and (iii) regulate and tighten the approval of foreign investment in real estate sector in China.



The Group believes that these measures are aimed at curbing speculation, stabilising property prices and rationalising the property market, which will not restrict the long term development of the property sector in China.

Despite a new series of macroeconomic control measures in China, continuous economic growth and robust end-user demand continue to lend support to quality development projects in Shanghai and Guangzhou.

## REVIEW OF MAJOR PROPERTY PROJECTS

### Shanghai

*Shanghai Hong Kong Plaza*
Shanghai Hong Kong Plaza is a twin-tower prime property located at Huaihaizhong Road, Luwan District, Shanghai with a gross floor area ("GFA") attributable to the Group of approximately 120,000 sq.m. comprising office, shopping arcades and service apartments. Rental income from Shanghai Hong Kong Plaza for the year ended 31 July 2007 amounted to HK$174,456,000, up from HK$157,876,000 in the previous year.

# Chairman's Statement

In line with the positioning of Huaihaizhong Road as a prime and high-end shopping district in Shanghai Puxi area, the Group plans to upgrade and renovate the shopping arcades over the next two years by phases, which will target high-end retail brands to open their flagship stores in Shanghai Hong Kong Plaza. It is expected that the rental yield would improve upon completion of the upgrade and renovation.

The Group also plans to upgrade the quality of the service apartments in order to improve its competitiveness and the image. The whole programme is expected to be completed in the next two years.

*Shanghai Regents Park*

Shanghai Regents Park is a major residential project located in the Zhongshan Park Commercial Area at the prestigious Changning District, Shanghai with a total saleable GFA of approximately 154,000 sq.m. (GFA attributable to the Group of approximately 146,000 sq.m.). During the year under review, the Group has sold all the remaining units in Phase I (equivalent to GFA attributable to the Group of approximately 5,200 sq.m.) for HK$96,840,000.

Phase II of the project will comprise six residential towers with approximately 460 units (GFA attributable to the Group of approximately 59,000 sq.m.). Pre-sale of Phase II is expected to start in November 2007. Given the recent strong demand in residential units in Shanghai, we expect the pre-sale would achieve satisfactory results.



*Shanghai May Flower Plaza*

Shanghai May Flower Plaza is a mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Zhabei District in Shanghai. This project is situated near the Zhongshan Road North Subway Station. The Group has an effective 95% interest in the project.

The project has a total GFA of approximately 147,900 sq.m. (GFA attributable to the Group of approximately 140,500 sq.m.), comprising residential and office apartments, commercial spaces, carparks and ancillary facilities. Construction work has already been commenced in October 2007 and is scheduled to be completed at the end of 2009 or in early 2010.

*Shanghai Northgate Plaza (also known as Zhabei Plaza)*

Shanghai Northgate Plaza Phase I is a block of office units with retail podium located on Tian Mu Road West in the Zhabei District of Shanghai near the Shanghai Railway Terminal. The Group has an effective 48.3% interest in Phase I.

The Phase I complex has a total GFA of approximately 36,500 sq.m. comprising office units, retail spaces and car parks.

# Chairman's Statement

The Group plans to develop Shanghai Northgate Plaza II on the vacant site located adjacent to Phase I. The Group has an effective 49.5% interest in Phase II.

The Phase II development will have a total GFA of approximately 34,400 sq.m. comprising service/office apartments with retail podium and car parks. Construction of Phase II is expected to commence in 2008 and is scheduled to be completed in 2010.

On 30 October 2007, the Group announced that it will acquire the remaining 50% interest in the holding company which indirectly holds Shanghai Northgate Plaza I and Shanghai Northgate Plaza II. The total consideration for such acquisition is HK$424,000,000. Upon completion of the acquisition, the Group's interest in Shanghai Northgate Plaza I and Shanghai Northgate Plaza II will increase to approximately 96.6% and 99.0% respectively.

**Guangzhou and Zhongshan**

*Guangzhou May Flower Plaza*
Guangzhou May Flower Plaza is a prime property situated at Zhongshanwu Road, Yuexiu District directly above the Gongyuanqian Subway Station in Guangzhou, interchange station of Guangzhou Subway Lines No. 1 and 2. The Group has an effective 77.5% interest in this property.



This 13-storey complex has a total GFA of approximately 51,000 sq.m. (GFA attributable to the Group of approximately 39,000 sq.m.) comprising retail spaces, restaurants and fast food outlets, cinema and office units. The property was opened in mid 2005 and is now 100% occupied by tenants that are well known corporations and/or consumer brands. Rental income from Guangzhou May Flower Plaza amounted to HK$46,617,000 for the year ended 31 July 2007, representing an increase of approximately 17% from previous year.

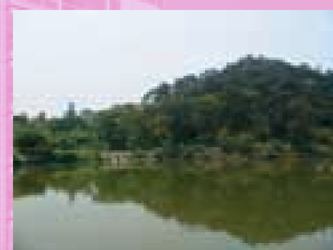
*Guangzhou Eastern Place*
Guangzhou Eastern Place is a multi-phase residential project located at Dongfeng East Road, Yuexiu District, Guangzhou. Phases I to III, which comprise six residential towers and the residents' clubhouse, had been completed in years between 1997 and 2004. The resident clubhouse houses an Olympic size swimming pool, fitness facilities, convenience store as well as a restaurant.

Phase IV, which comprises two residential towers, was completed in December 2006. Most of the units in Phase IV were pre-sold in 2006 and the sales revenue and profit were recognised in this year.

Shanghai Regents Park

Shanghai Hong Kong Plaza

Shanghai Northgate Plaza Phase II
*(architectual rendering)*



Guangzhou Jinshazhou Project

Shanghai May Flower Plaza *(architectual rendering)*

# Chairman's Statement

The Phase V development will have an intended total GFA attributable to the Group of approximately 130,700 sq.m. comprising residential blocks, a grade-A office building and retail spaces. In view of the strong demand for service apartments in Guangzhou, the plan has been revised to include two residential blocks, a service apartment block, a grade-A office building and retail spaces. Construction work has been commenced and is now scheduled to be completed in 2010.

*Guangzhou West Point*

Guangzhou West Point is located at Zhongshan Qi Road, Liwan District and is within walking distance from the Ximenkou Subway Station. The Group completed the acquisition of 100% interest in this project in February 2007.

The project has a total GFA of approximately 72,000 sq.m., comprising residential, office units, commercial spaces, carparks and ancillary facilities. The exterior and interior fitting of the project is scheduled to be completed in the first half of 2008. Pre-sale is expected to start before the end of this year.

*Guangzhou Jinshazhou Project*

Guangzhou Jinshazhou project is a 50:50 joint venture with CapitaLand China Holdings Pte. Ltd. This proposed development in Jinshazhou, Hengsha, Baiyuan District, Guangzhou has a total GFA of approximately 340,000 sq.m. (GFA attributable to the Group of approximately 170,000 sq.m.), comprising low-rise residential units with ancillary facilities including carparks and shopping amenities.



The project is currently in the planning stage. According to current development schedule, the project will be completed in phases from 2009 to 2011.

*Guangzhou Hai Zhu Plaza*

Guangzhou Hai Zhu Plaza is located at Chang Di Main Road in Yuexiu District, Guangzhou along the Pearl River. The Group effectively owns the entire interest in this project.

The proposed development has a GFA of approximately 113,000 sq.m., and is intended to be developed into a grade-A office tower, a service apartment tower, a retail podium, carparks as well as ancillary facilities.

The project is currently in the process of resettlement of original occupants which is expected to be completed in 2008. The development is expected to be completed in 2010.

Guangzhou Eastern Place

Guangzhou Eastern Place Phase V *(architectual rendering)*

Guangzhou May Flower Plaza

Guangzhou Hai Zhu Plaza
*(architectual rendering)*

Guangzhou West Point *(architectual rendering)*

# Chairman's Statement

*Guangzhou Donghua Dong Road Project*
The site was acquired by the Group in a public auction in July 2007. It is located at Donghua Dong Road in Yuexiu District. The permitted GFA is approximately 10,600 sq.m. The project is currently in the planning stage and is intended to be developed into a residential tower. The project is expected to be completed in 2011.

*Guangzhou Da Sha Tou Road / Yuan Jiang Dong Road Project*
The site was acquired by the Group in a public auction in July 2007. It is located at the junction of Da Sha Tou Road and Yuan Jiang Dong Road in Yuexiu District. The permitted GFA is approximately 8,800 sq.m. The project is currently in the planning stage and is intended to be developed into a service apartment tower. The project is expected to be completed in 2011.

*Guangzhou Guan Lu Road Project*
The site was acquired by the Group in a public auction in July 2007. It is located at Guan Lu Road in Yuexiu District. The permitted GFA is approximately 14,000 sq.m. The project is currently in the planning stage and is intended to be developed into a residential tower. The project is expected to be completed in 2011.



*Zhongshan Project*
The Group wholly owns a project located in Caihong Planning Area, West District of Zhongshan with a site area of approximately 236,600 sq.m. The Group plans to apply for a higher plot ratio of this project to increase its approximate total planned GFA from the original 350,000 sq.m. to over 500,000 sq.m., comprising mainly residential units with commercial spaces and ancillary facilities.

Phase I of the project will comprise 28 blocks of residential towers and service apartments with a total GFA of around 138,000 sq. m.. Construction work of Phase I is expected to be commenced in early 2008 and is expected to be completed by the end of 2009. Other phases of the project is expected to be completed from 2010 to 2011.

## CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

In March 2007, the Group successfully issued the 9.125% senior notes due 2014 (the "Senior Notes") and raised US$200,000,000 before expenses. The proceeds are intended to be used to finance acquisition of land and property projects, project development, renovation of investment properties and for working capital purposes. Part of the proceeds from the issue of Senior Notes have been used to acquire the three new projects in Guangzhou in July 2007.

# Chairman's Statement

Apart from the proceeds from the issue of Senior Notes, the Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank borrowings on project basis and general bank loan facilities on secured basis.

As at 31 July 2007, the Group had total borrowings in the amount of HK$2,746 million (2006: HK$1,056 million), representing an increase of HK$1,690 million from that as at the preceding financial year end, mainly as a result of the issue of US$200,000,000 Senior Notes. The consolidated net assets attributable to the equity holders of the Company amounted to HK$5,956 million (2006: HK$5,246 million). The total debt to equity ratio was 46% (2006: 20%) and the total debt to total capitalisation (long-term debt + equity) ratio was 35% (2006: 17%).

As at 31 July 2007, approximately 55% and 43% of the Group's borrowings were on a fixed rate basis and floating rate basis respectively, with the remaining 2% of the Group's borrowings were interest free.

Apart from the Senior Notes, the Group's other borrowings of HK$1,233 million were 35% denominated in Renminbi ("RMB"), 15% in Hong Kong dollars ("HKD") and 50% in United States dollars ("USD").

In order to match its USD exposure on the Senior Notes with its revenue, which are mainly denominated in RMB, the Group has hedged its USD exposure on the Senior Notes into RMB. Apart from this hedge, the Group does not hedge its other exposures in RMB and USD.



The maturity profile of the Group's bank borrowings as at 31 July 2007 was spread over a period of 9 years, with approximately 88% repayable within one year, 11% repayable between two to five years and 1% repayable over five years. The term loans of the Group have amortisation throughout the tenure. The Group is constantly negotiating with the relevant bank in refinancing and/or rescheduling the principal amortisation schedule where necessary. For HK$781,575,000 outstanding bank loans which are secured by the Group's properties at Shanghai Hong Kong Plaza and Guangzhou May Flower Plaza, the Group has obtained offers from the relevant bank for refinancing of such loans for a period of five years.

Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK$3,551 million, service apartments with carrying value of approximately HK$550 million, properties under development with carrying value amounting to approximately HK$858 million, a property with carrying value amounting to approximately HK$45 million, and bank balances amounting to approximately HK$145 million as at the balance sheet date.

# Chairman's Statement

Taking into account cash held as at the balance sheet date, available banking facilities, loan refinancing and the recurring cashflow from the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing property developments and investment projects.

## CONTINGENT LIABILITIES

According to a common practice among banks in China when providing mortgage financing to property buyers, the bank will require property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Group is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Shanghai Hong Kong Plaza, Phase I of Shanghai Regents Park, and Phases I to IV of Guangzhou Eastern Place. The Group's contingent liabilities under these obligations have been gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. As China's property market is currently stable, the management does not expect such contingent liabilities to crystallize to a material extent in the near term.

## EMPLOYEES AND REMUNERATION POLICIES



As at 31 July 2007, the Group employed a total of around 920 staff. The Group recognises the importance of maintaining a stable staff force in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a share option scheme, a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

## PROSPECTS

The Group principally focuses on property development projects located in prime areas in core cities in China including Shanghai, Guangzhou and Zhongshan.

For our development properties, the Group will accelerate its development schedule whenever possible and to increase its completion volume in the next few years. Apart from the recent acquisitions of three new sites in Guangzhou and additional interest in Shanghai Northgate Plazas I and II, the Group is also looking into investment opportunities in other key cities.

# Chairman's Statement

For our investment properties, given the tremendous potential in rental rates in Shanghai and Guangzhou due to strong consumer spending and office demand, the Group will strive to improve the rental income through major renovations and improvement in tenant mix.

## MANAGEMENT AND STAFF

On behalf of the Board, I would like to thank the Management and staff of the Company for their hard work and dedication. I would also like to express my appreciation of the continuous support of our shareholders, business partners and financial institutions.

**Lam Kin Ngok, Peter**
*Chairman*

Hong Kong
9 November 2007

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 July 2007.

## PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding.

The Group's principal activities have not changed during the year and consisted of property development for sale and property investment for rental purposes.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 July 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 121.

The directors propose a final dividend of 0.4 HK cent per ordinary share for the year ended 31 July 2007 (2006: 0.1 HK cent per ordinary share). No interim dividend has been declared or paid by the Company for the year (2006: Nil).

## 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:

**Executive directors:**



| | |
|---|---|
| Lam Kin Ngok, Peter *(Chairman)* | |
| Lam Kin Ming *(Deputy Chairman)* | |
| Lam Kin Hong, Matthew *(Executive Deputy Chairman)* | |
| Lam Hau Yin, Lester *(Chief Executive Officer)* | |
| U Po Chu | |
| Lau Shu Yan, Julius | |
| Tam Kin Man, Kraven | |
| Cheung Sum, Sam | (appointed on 4 June 2007) |
| Leung Churk Yin, Jeanny | (appointed on 1 September 2007) |
| Cheng Shin How | (appointed on 4 June 2007) |
| Lee Po On | (retired on 22 December 2006) |

**Non-executive directors:**

| | |
|---|---|
| Lim Ming Yan | |
| Cheong Kwok Mun # | (appointed as alternate director to Lim Ming Yan on 27 July 2007) |
| Wong Yee Sui, Andrew** | |
| Lam Bing Kwan** | |
| Ku Moon Lun** | |
| Lam Kin Ko, Stewart | (resigned on 1 September 2006) |
| Lui Chong Chee | (resigned on 4 June 2007) |

\# *Alternate director to Lim Ming Yan*

** *Independent non-executive directors*

## DIRECTORS (continued)

In accordance with Article 99 of the Company's Articles of Association, Mr. Cheung Sum, Sam, Ms. Leung Churk Yin, Jeanny and Mr. Cheng Shin How retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Lam Kin Hong, Matthew and Mr. Lam Bing Kwan retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Rule 13.74 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), details required under Rule 13.51(2) of the aforesaid Directors had been included in the "Biographical Details of Directors and Senior Management" section of this report. All retirng directors have confirmed that there is no information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules and there are no other matters that need to be brought to the attention of the shareholders of the Company.

## DIRECTORS' SERVICE CONTRACTS

No director 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.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 41(a)(ii) to the financial statements, no director had a material interest, either directly or indirectly in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.



## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Mr. Lam Kin Hong, Matthew, Mr. Lau Shu Yan, Julius, Madam U Po Chu, Mr. Lim Ming Yan, Mr. Cheong Kwok Mun, Cheng Shin How and Mr. Lui Chong Chee held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong and the Mainland of China.

As the board of directors of the Company (the "Board") is independent from the boards of directors of the aforesaid companies and none of the above directors of the Company can control the Board, the Group is capable of carrying on its business independent of, and at arm's length from, the businesses of such companies.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Executive directors:**

**Mr. Lam Kin Ngok, Peter,** Chairman, aged 50, was appointed a director of the Company in November 1993. Mr. Lam is also the chairman of Lai Sun Development Company Limited ("LSD"), the deputy chairman of Lai Sun Garment (International) Limited ("LSG") and a director of Silver Glory Securities Limited ("Silver Glory"), an executive director of eSun Holdings Limited ("eSun") and Crocodile Garments Limited ("CGL"). LSD, LSG, eSun and CGL are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Both LSG and Silver Glory are substantial shareholders of the Company. Mr. Lam has extensive experience in property development and investment business, hospitality and media and entertainment business. Mr. Lam is currently Chairman of the Hong Kong Chamber of Films, Honorary Chairman of the Hong Kong Kowloon & New Territories Motion Picture Industry Association, a member of the Hong Kong Film Development Council and a member of the Hong Kong Tourism Board. He is also a member of the Entertainment Industry Advisory Committee of the Hong Kong Trade Development Council and a Trustee of the Better Hong Kong Foundation. Mr. Lam is a director of the Real Estate Developers Association of Hong Kong, an ex-committee member of the Federation of Hong Kong Hotel Owners and a council member of the Anglo-Hong Kong Trust. Mr. Lam is a son of Madam U Po Chu, an executive director of the Company, and is the younger brother of Mr. Lam Kin Ming, the deputy chairman of the Company.

**Mr. Lam Kin Ming,** Deputy Chairman, aged 70, was appointed a director of the Company in September 1997. Mr. Lam is the chairman of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), the chairman and chief executive officer of Crocodile Garments Limited and a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited. Mr. Lam has extensive experience in property development and investment and garment businesses, and has been involved in the day-to-day management of the garment business since 1958. Mr. Lam is the elder brother of Mr. Lam Kin Ngok, Peter.



**Mr. Lam Kin Hong, Matthew,** Executive Deputy Chairman, aged 39, was appointed a director of the Company in December 2001. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. He attained a Bachelor of Science Degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development fields and corporate finance fields in Hong Kong and Mainland of China. Mr. Lam is the younger brother of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming. Mr. Lam does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lam has a service contract with the Company with no fixed term of services and will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lam is entitled to such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

# Report of the Directors

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)**

**Executive directors: (continued)**

**Mr. Lam Hau Yin, Lester,** Chief Executive Officer, aged 26, was appointed a director of the Company in April 2005. He is also an executive director of Lai Sun Garment (International) Limited and a director of Silver Glory Securities Limited (both being substantial shareholders of the Company) and an alternate director to Madam U Po Chu, a non-executive director of Lai Sun Garment (International) Limited, and a vice president of Lai Sun Development Company Limited. He holds a Bachelor of Science in Business Administration degree from Northeastern University, Boston, USA. He has attained working experience since 1999 in various companies engaged in securities investment, hotel operations, environmental products and entertainment. He is a son of Mr. Lam Kin Ngok, Peter.

**Madam U Po Chu,** aged 82, was appointed a director of the Company in February 2003. She is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited and eSun Holdings Limited. Madam U has over 55 years of experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and became involved in property development and investment in the late 1980's. Since 1980's, Madam U began investing in the catering industry in Hong Kong. Madam U is Mr. Lam Kin Ngok, Peter's mother.

**Mr. Lau Shu Yan, Julius**, aged 51, was appointed a director of the Company in April 2005. He is also the chief executive officer of Lai Sun Development Company Limited ("LSD"), having joined the board of LSD in July 1991. Mr. Lau has over 20 years of experience in the property and securities industries holding senior management positions. Prior to joining the Lai Sun Group, he was a director of Jones Lang Wootton Limited and subsequently Jardine Fleming Broking Limited. Mr. Lau is a director and a member of the Executive Committee of Real Estate Developers Association of Hong Kong. He is also a director of a number of subsidiaries of the Company.

**Mr. Tam Kin Man, Kraven,** aged 59, was appointed a director of the Company in April 2005. He is also a director of Lai Sun Development Company Limited ("LSD") and Lai Sun Garment (International) Limited (a substantial shareholder of the Company). He joined LSD in March 1989 and is currently a director of Furama Hotel Enterprises Limited and a number of subsidiaries of the Company. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has close to 30 years of experience in property development, investment and management. He also has over 15 years of experience in the hospitality business covering hotels, restaurants and clubs in Asia and North America. He was a director and chief executive officer of the Company from May 1996 to June 1999.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

**Executive directors: (continued)**

**Mr. Cheung Sum, Sam,** aged 43, was appointed a director of the Company in June 2007. He joined Lai Sun Development Company Limited ("LSD") as senior vice president in November 2006 and was appointed an executive director of LSD on 1 June 2007. From March 2002 to February 2006, he was an executive director and chief financial officer of a listed company in Hong Kong, which was later privatised in August 2007. Before that, he worked for a number of international investment banks and other listed companies in Hong Kong. Mr. Cheung has extensive experience in corporate finance, investment banking and financial management. He graduated from London School of Economics and Political Science, University of London, with a Bachelor of Science (Economics) degree in Accounting and Finance. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Cheung was granted 30,000,000 share options in the share capital of the Company in August 2007. Mr. Cheung does not have a service contract with the Company and will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Cheung is entitled to such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

**Ms. Leung Churk Yin, Jeanny,** aged 42, was appointed a director of the Company in September 2007. Ms. Leung has over 20 years of corporate finance experience in Hong Kong, the Mainland of China and Taiwan and was one of the founders and the managing director of Access Capital Limited. Before joining Access Capital Limited, a licensed corporation to carry out certain regulated activities under the Securities and Futures Ordinance, Ms. Leung worked at Yuanta Securities (Hong Kong) Company Limited, JP Morgan Securities (Asia) Limited, Standard Chartered (Asia) Limited and The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Ms. Leung is an executive director of both Lai Sun Garment (International) Limited ("LSG") and Lai Sun Development Company Limited ("LSD"), an executive director and the chief executive officer of eSun Holdings Limited ("eSun"), a non-executive director of Top Form International Limited ("Top Form") and a director of Silver Glory Securities Limited ("Silver Glory'). LSG, LSD, eSun and Top Form are companies listed on the Main Board of the Stock Exchange. LSG and Silver Glory are substantial shareholders of the Company. Ms. Leung does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Ms. Leung does not have a service contract with the Company and will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Ms. Leung is entitled to such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

**Executive directors: (continued)**

**Mr. Cheng Shin How**, aged 41, was appointed a director of the Company in June 2007. He is the Regional Director of the Hong Kong and Macau office of CapitaLand Limited (a substantial shareholder of the Company), which is headquartered in Singapore and is one of the largest listed real estate companies in Asia. He is also a director of CapitaLand China Holdings Pte Ltd, a substantial shareholder of the Company. Mr. Cheng joined CapitaLand Group in 1999 to head the Hong Kong office and has been involved in CapitaLand Group's real estate investment in Hong Kong, Macau and the Mainland of China. Prior to joining CapitaLand Limited, Mr. Cheng was with CB Richard Ellis, an international property consultancy firm where he was involved in property valuation, development and investment consultancy. Mr. Cheng has been involved in the China business since 1993. Mr. Cheng graduated with an Honours Degree in Land Management from University of Reading, United Kingdom. He is also a Licensed Appraiser in Singapore. Mr. Cheng does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Cheng has a service contract with the Company with no fixed term of service and will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Cheng is entitled to such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

**Non-executive directors:**

**Mr. Lim Ming Yan**, aged 44, was appointed a director of the Company in June 2006. Mr. Lim is the chief executive officer of CapitaLand China Holdings Group and CapitaLand Financial Limited (China Development) and is responsible for CapitaLand Group's real estate development and financial operations in China. Mr. Lim is a director of CapitaLand China Holdings Pte Ltd ("CapitaLand China") and CapitaLand LF (Cayman) Holdings Co., Ltd., both being substantial shareholders of the Company. CapitaLand China is a developer of premier homes and quality commercial properties in various gateway cities in China since 1994. CapitaLand China is a wholly-owned subsidiary of CapitaLand Limited, one of the largest listed property companies in Asia. In recognition of his contributions, Mr. Lim was conferred "Magnolia Award" by Shanghai Municipal Government in 2003 and 2005. Mr. Lim studied at the University of Birmingham, United Kingdom where he graduated with first class honors. He also attended the Advanced Management Program at Harvard Business School in 2002.

# Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

**Non-executive directors: (continued)**

**Mr. Cheong Kwok Mun,** aged 39, was appointed an alternate director to Mr. Lim Ming Yan, a non-executive director of the Company in July 2007. He is the General Manager, Corporate Management of CapitaLand China Holdings Pte Ltd, an indirect wholly owned subsidiary of CapitaLand Limited which is a substantial shareholder of the Company. CapitaLand Limited is headquartered in Singapore and is one of the largest listed real estate companies in Asia. Mr. Cheong joined CapitaLand Group in 2004 as Vice-President, Investor Relations in Singapore and concurrently headed the Investor Relations function at The Ascott Group in 2005. Prior to joining CapitaLand Group, Mr. Cheong was a rated equity analyst with over 10 years experience at DBS Vickers Research (Singapore) Pte Ltd, one of the country's leading securities houses where he was involved in real estate research and extensive marketing to global institutional investors. Mr. Cheong has been involved in CapitaLand's China business since 2006. Mr. Cheong graduated with a Bachelor in Economics from University of Western Australia.

**Independent non-executive directors:**

**Mr. Wong Yee Sui, Andrew,** aged 58, was appointed an independent non-executive director of the Company in December 1999. Mr. Wong graduated from the University of Adelaide, South Australia in 1971 and obtained a Master of Business Administration degree at Queen's University, Canada in 1974. He became a Chartered Accountant in 1976 in Quebec, Canada, and a fellow member of Hong Kong Institute of Certified Public Accountants in 1988. Mr. Wong has extensive experience in the auditing and finance fields in Hong Kong and overseas. He is a partner of W. M. Sum & Co., a firm of certified public accountants in Hong Kong and an independent non-executive director of Peace Mark (Holdings) Limited.



**Mr. Lam Bing Kwan,** aged 58, was appointed an independent non-executive director of the Company in July 2001. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has substantial experience in property development and investment in the Mainland of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently an independent non-executive director of Lai Sun Development Company Limited and eForce Holdings Limited, and a non-executive director of Sino-i Technology Limited and Nan Hai Corporation Limited, all listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lam does not have a service contract with the Company and will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lam is entitled to such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

**Independent non-executive directors: (continued)**

**Mr. Ku Moon Lun,** aged 56, was appointed an independent non-executive director of the Company in June 2006. Mr. Ku has more than 35 years of experience in the real estate industry. He was the Executive Director of Davis Langdon and Seah International ("DLSI"), a property consultant firm, until end of 2005 where he was responsible for formulating the policies and steering the direction of the DLSI group of companies. He was also the Chairman of the board of directors of Davis Langdon and Seah Hong Kong Limited from 1995 to 2004. Mr. Ku was previously the Chairman of Premas Hong Kong Limited, a facilities management company, from 2000 to 2002. He was also the Chairman of icFox International, an information technology company, from 2000 to 2003. Currently, Mr. Ku is an independent non-executive director of Ascott Residence Trust Management Limited in Singapore and Kerry Properties Limited, which is listed on The Stock Exchange of Hong Kong Limited. Mr. Ku is the Regional Adviser (Asia) to Trust Company Limited, a listed company in Australia. He is also a member of the Hospital Governing Committee of Tuen Mun Hospital, Hong Kong Hospital Authority. Mr. Ku is a fellow of the Hong Kong Institute of Surveyors.

**Senior management:**

**Mr. Tse Ho Yin, Iain,** aged 58, joined the Company in March 2005 as General Manager, Guangzhou Region. Mr. Tse retired from the civil service after having served in the Hong Kong Police Force for 32 years. Immediately prior to his retirement, Mr. Tse, in his rank as a senior superintendent, was the deputy commander of a police district in the Kowloon West Region, with a working force of over 1,000 police and civilian officers of various ranks under his command. Mr. Tse is responsible for the management of the commercial and residential properties portfolio of the Company in the Guangzhou area.

**Mr. Wong Kam Kwan**, aged 59, joined Lai Sun Group in December 2004 and is currently the General Manager for Shanghai Region. Mr. Wong graduated from the Chinese University of Hong Kong in 1971 and has over 30 years of working experience and extensive exposure in the property industry. Mr. Wong has been a senior management member of a few listed public property companies in Hong Kong before joining Lai Sun Group.

## ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# Report of the Directors

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 21 August 2003 for the purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to Eligible Employees (as defined in the Share Option Scheme) of the Company.

Details of the Share Option Scheme are set out in note 33 to the financial statements.

## DIRECTORS' INTERESTS

As at 31 July 2007, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

| | Long positions in the shares | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of Director | Personal Interests | Family Interests | Corporate Interests | Other Interests | Capacity | Total | Percentage |
| Lam Kin Ngok, Peter | Nil | Nil | 3,265,688,037 *(Note)* | Nil | Owner of controlled corporation | 3,265,688,037 | 40.58% |
| Lau Shu Yan, Julius | 2,258,829 | Nil | Nil | Nil | Beneficial owner | 2,258,829 | 0.03% |
| Tam Kin Man, Kraven | Nil | Nil | Nil | 40,000,000 (under share option) | Beneficial owner | 40,000,000 | 0.5% |



*Note:*

These interests in the Company represented the shares beneficially owned by Lai Sun Garment (International) Limited ("LSG") (1,869,206,362 shares) and Silver Glory Securities Limited ("SGS") (1,396,481,675 shares), a wholly-owned subsidiary of LSG. Mr. Lam Kin Ngok, Peter was deemed to be interested in the 3,265,688,037 shares in the Company held by LSG and SGS since he held (1) a 50% interest in Wisdoman Limited which held 484,991,750 shares in LSG and (2) a personal interest of 124,644,319 shares in LSG, representing in aggregate approximately 37.69% of the issued share capital of LSG.

Save as disclosed above, as at 31 July 2007, none of the directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 July 2007, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO:

**Long positions in the shares**

| Name | Capacity | Nature of interest | Number of Shares | Percentage |
|---|---|---|---|---|
| Lai Sun Garment (International) Limited ("LSG") | Beneficial owner | Corporate Interest | 3,265,688,037 *(Note 1)* | 40.58% |
| Silver Glory Securities Limited ("SGS") | Beneficial owner | Corporate Interest | 1,396,481,675 | 17.35% |
| Lam Kin Ngok, Peter | Owner of Controlled Corporation | Corporate Interest | 3,265,688,037 *(Note 2)* | 40.58% |
| CapitaLand China Holdings Pte Ltd. | Owner of Controlled Corporation | Corporate Interest | 1,610,000,000 | 20% |
| CapitaLand LF (Cayman) Holdings Co., Ltd | Beneficial owner | Corporate Interest | 1,610,000,000 | 20% |
| CapitaLand Limited | Owner of Controlled Corporation | Corporate Interest | 1,610,000,000 | 20% |
| CapitaLand Residential Limited | Owner of Controlled Corporation | Corporate Interest | 1,610,000,000 | 20% |
| Temasek Holdings (Private) Limited | Owner of Controlled Corporation | Corporate Interest | 1,610,000,000 | 20% |

# Report of the Directors

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

**Long positions in the shares**

| Name | Capacity | Nature of interest | Number of Shares | Percentage |
|---|---|---|---|---|
| Allianz SE | Owner of Controlled Corporation | Corporate Interest | 554,944,711 | 6.90% |
| Dresdner Bank Aktiengesellschaft | Owner of Controlled Corporation | Corporate Interest | 554,944,711 | 6.90% |
| Veer Palthe Voute NV | Investment Manager | Corporate Interest | 554,944,711 | 6.90% |

*Notes:*

1. These interests in the Company represented the shares beneficially owned by LSG (1,869,206,362 shares) and SGS (1,396,481,675 shares), a wholly-owned subsidiary of LSG. SGS's interest constituted part of the interest held by LSG.



2. Mr. Lam Kin Ngok, Peter was deemed to be interested in 3,265,688,037 shares held by LSG and SGS by virtue of his approximate 37.69% interest in the issued share capital of LSG.

Save as disclosed above, no other person was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares and underlying shares of equity derivatives of the Company as at 31 July 2007.

## CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in note 28 to the financial statements, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

## CONNECTED TRANSACTION

On 13 February 2007, Public Bank (Hong Kong) Limited ("Vendor"), Beamunion Limited ("Purchaser") (a wholly-owned subsidiary of the Company), the Company and Cosimo Borrelli and G. Jacqueline Fangonil Walsh ("Liquidators") (the joint and several liquidators of Weng Heng Investment Company Limited (in compulsory liquidation) ("Weng Heng")) entered into a sale and purchase agreement pursuant to which the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase 2,500,000 ordinary shares of HK$1.00 each in Frank Light Development Limited ("Frank Light") registered in the name of Weng Heng, representing approximately 12.5% of the issued share capital of Frank Light, and a loan in the sum of HK$47,801,119, representing all shareholder's loan advanced to Frank Light by Weng Heng at a total consideration of HK$45,000,000.

Before the above transaction, Frank Light was a subsidiary of the Purchaser in which the Purchaser has approximately 87.5% interest. Upon completion of the transaction on 16 February 2007, the Company indirectly holds 100% of the issued share capital of Frank Light.

Frank Light is an investment holding company, the principal activity of which is the holding of interest in Guangzhou Honghui Real Estate Development Co. Ltd. (廣州宏輝房產開發有限公司), which is the owner of a piece of land located in Liwan District, Guangzhou with a total site area of approximately 6,000 square meters and the building erected thereon with a total gross floor area of approximately 72,000 square meters for office, commercial and residential use. The transaction enables the Group to expand and complement its development property portfolio in Guangzhou.

According to a share mortgage dated 26 September 2001 executed by Weng Heng in favour of the Vendor, the Vendor is able to control the exercise of the voting rights attached to the sale shares and therefore regarded a substantial shareholder of Frank Light and was therefore regarded as a connected person of the Company. The transaction therefore constituted a connected transaction of the Company under the Listing Rules. Further details of the transaction are disclosed in the Company's announcement dated 14 February 2007.

# Report of the Directors

## DETAILS OF PROPERTIES

The principal properties under development of the Group are as follows:

| Location | Group interest | Stage of construction | Expected completion date | Expected use | Gross floor area |
|---|---|---|---|---|---|
| Eastern Place, 787 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 100% | Residential towers 7 & 8 construction completed. Phase V is under construction (foundation work) | Residential towers 7 & 8 in 2007. Phase V in 2010 | Residential/ commercial/ office | Total site area (residential towers 7 & 8 and Phase V ): 26,941 sq.m. Total gross floor area (residential towers 7 & 8 and Phase V): approximately 179,500 sq.m. |
| West Point, Zhongshan Qi Road, Liwan District, Guangzhou, Guangdong Province, PRC | 100% | Construction work in progress | 2008 | Residential/ commercial/ office | Total site area: 6,003 sq.m. Total gross floor area: approximately 72,000 sq.m |
| Hai Zhu Plaza, Chang Di Main Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 100% | Resettlement of original inhabitants in progress | 2010 | Commercial/ office | Total site area: 8,427 sq.m. Total gross floor area: approximately 113,000 sq.m |
| Donghua Dong Road Project, Donghua Dong Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 100% | Development under planning | 2011 | Residential | Total site area: 3,263 sq.m. Total gross floor area: approximately 10,600 sq.m. |

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

| Location | Group interest | Stage of construction | Expected completion date | Expected use | Gross floor area |
|---|---|---|---|---|---|
| Da Sha Tou Road/ Yuan Jiang Road Project, Dong Sha Tou Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 100% | Development under planning | 2011 | Commercial | Total site area: 2,210 sq.m. Total gross floor area: approximately 8,800 sq.m. |
| Guan Lu Road Project, Guan Lu Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 100% | Development under planning | 2011 | Residential/ commercial | Total site area: 2,432 sq.m. Total gross floor area: approximately 14,000 sq.m. |
| Regents Park, 88 Huichuan Road, Changning District, Shanghai, PRC | 95% | Phase II construction work in progress | Phase II in 2008 | Residential | Total site area (Phase II) approximately 11,670 sq.m. Total gross floor area: approximately 72,000 sq.m. |
| Shanghai May Flower Plaza, Sujiaxiang, Zhabei District, Shanghai, PRC | 95% | Construction work in progress | 2009 | Residential/ commercial/ office | Total site area: approximately 22,000 sq.m. Total gross floor area: approximately 147,900 sq.m. |

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

| Location | Group interest | Stage of construction | Expected completion date | Expected use | Gross floor area |
|---|---|---|---|---|---|
| Northgate Plaza II, Tian Mu Road West, Zhabei District, Shanghai, PRC | 49.5%* | Development under planning | 2010 | Commercial | Total site area: 4,115 sq.m. Total gross floor area: approximately 34,400 sq.m. |
| Zhongshan Project A piece of land at Western District of Zhongshan, Guangdong Province, PRC | 100% | Development under planning | In phases from 2009 to 2011 | Residential/ commercial | Total site area: 236,648 sq.m. Total gross floor area: approximately 350,000 sq.m. |

* *On 30 October 2007, the Company announced to acquire additional interests of the project. Upon the completion scheduled to be completed on 25 January 2008, the interest attributable to the Group will be 99%*

The principal investment properties of the Group are as follows:



| Location | Group interest | Tenure | Use | Gross floor area |
|---|---|---|---|---|
| Commercial podium and certain office and service apartment units of Hong Kong Plaza, 282 & 283 Huaihaizhong Road, Luwan District, Shanghai, PRC | 95% | The property is held for a term of 50 years, commencing on 16 September 1992 and expiring on 15 September 2042 | Office/ shopping arcades/ service apartments | approximately 108,600 sq.m. |
| Certain units in the North Tower of Hong Kong Plaza, 282 & 283 Huaihaizhong Road, Luwan District, Shanghai, PRC | 100% | The property is held for a term of 50 years, commencing on 16 September 1992 and expiring on 15 September 2042 | Service apartments | approximately 19,600 sq.m. |
| Northgate Plaza I 99 Tian Mu Road West Zhabei District, Shanghai PRC | 48.3% ^ | The property is held for a term of 50 years, commencing on 15 June 1993 and expiring on 14 June 2043 | Commercial | approximately 36,500 sq.m. |

## DETAILS OF PROPERTIES (continued)

| Location | Group interest | Tenure | Use | Gross floor area |
|---|---|---|---|---|
| May Flower Plaza, 68 Zhongshanwu Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 77.5% | The property is held for a term of 40 years for commercial use and 50 years for other uses from the date of issue of the State-owned Land Use Right Certificate (14 October 1997) | Shopping arcades/office | approximately 50,600 sq.m. |

^ *On 30 October 2007, the Company announced to acquire additional interests of the project. Upon the completion scheduled to be completed on 25 January 2008, the interest attributable to the Group will be about 96.6%*

The completed properties for sale of the Group are as follows:

| Location | Group interest | Gross floor area |
|---|---|---|
| Certain residential units in Eastern Place, 787 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, PRC | 100% | approximately 849 sq.m. |



## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16, respectively, to the financial statements. Further details of the Group's investment properties are set out in this report under the heading "Details of Properties" above.

## PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out in this report under the heading "Details of Properties" above.

## FIXED RATE SENIOR NOTES

During the year, the Group issued the 9.125% senior notes due 2014 (the "Senior Notes") with aggregate principal amount of US$200,000,000. Details of the Senior Notes are set out in note 29 to the financial statements.

# Report of the Directors

## SHARE CAPITAL

Movements in the Company's authorised and issued share capital during the year are set out in note 32 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 34(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 July 2007, the Company's reserves, including share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$4,168,293,000 (2006: HK$4,273,578,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,302,000.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION

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

### Results

| | Year ended 31 July | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) | (Restated) | |
| Turnover | **792,420** | 703,352 | 402,863 | 630,204 | 119,338 |
| Profit before tax | **572,546** | 310,358 | 458,695 | 22,423 | 44,691 |
| Tax | **(64,272)** | (164,098) | (140,868) | 11,029 | (16,246) |
| Profit for the year | **508,274** | 146,260 | 317,827 | 33,452 | 28,445 |
| Attributable to: | | | | | |
| Equity holders of the Company | **470,351** | 132,745 | 246,197 | 36,006 | 29,970 |
| Minority interests | **37,923** | 13,515 | 71,630 | (2,554) | (1,525) |
| | **508,274** | 146,260 | 317,827 | 33,452 | 28,445 |

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION (continued)

### Assets, liabilities and minority interests

| | As at 31 July | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) | (Restated) | |
| Property, plant and equipment and prepaid land lease payments | **675,199** | 672,054 | 631,117 | 639,451 | 651,641 |
| Investment properties | **3,673,600** | 3,189,300 | 3,081,300 | 1,971,400 | 2,151,000 |
| Properties under development | **2,107,681** | 1,937,211 | 1,349,596 | 1,881,878 | 1,958,498 |
| Goodwill/(negative goodwill) | **4,561** | 4,561 | — | (8,807) | (9,040) |
| Interests in associates | **1,057,982** | 770,917 | 658,058 | 645,401 | 600,237 |
| Long term deposits | **25,904** | — | — | — | — |
| Available-for-sale investments | **—** | 13,464 | — | — | — |
| Long term investments | **—** | — | — | — | 2,300 |
| Pledged time deposits | **118,914** | — | — | — | — |
| Pledged bank balances | **—** | — | — | 10,262 | — |
| Current assets | **2,759,746** | 1,414,223 | 699,265 | 724,103 | 264,392 |
| TOTAL ASSETS | **10,423,587** | 8,001,730 | 6,419,336 | 5,863,688 | 5,619,028 |
| Current liabilities | **(1,619,599)** | (881,338) | (785,953) | (435,009) | (313,336) |
| Long term rental deposits received | **(17,101)** | (21,931) | (23,257) | (14,147) | (12,666) |
| Non-current interest-bearing bank loans, secured | **(123,343)** | (753,859) | (732,538) | (1,093,593) | (1,074,362) |
| Promissory note | **(167,000)** | (167,000) | — | — | — |
| Fixed rate senior notes | **(1,513,431)** | — | — | — | — |
| Derivative financial instruments | **(72,859)** | — | — | — | — |
| Advances from a substantial shareholder | **(48,273)** | (45,542) | (44,795) | — | — |
| Deferred tax liabilities | **(593,692)** | (627,752) | (431,030) | (299,394) | (358,826) |
| TOTAL LIABILITIES | **(4,155,298)** | (2,497,422) | (2,017,573) | (1,842,143) | (1,759,190) |
| | **6,268,289** | 5,504,308 | 4,401,763 | 4,021,545 | 3,859,838 |
| Minority interests | **(312,306)** | (258,473) | (219,162) | (160,028) | (162,589) |
| | **5,955,983** | 5,245,835 | 4,182,601 | 3,861,517 | 3,697,249 |

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers was 3% of the Group's total turnover. During the year, the Group's purchases from its five largest suppliers accounted for approximately 32% of the Group's total purchases, while the largest supplier accounted for approximately 15% of the Group's total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest suppliers.

## DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

Loans agreements for certain bank facilities of certain subsidiaries of the Group (the "Subsidiaries") impose specific performance obligations on LSG, a substantial shareholder of the Company, and Lai Sun Development Company Limited ("LSD"), an investee company of LSG.

Pursuant to the covenants of the loans agreements dated 14 June 2001 and 15 February 2005, the Company and the subsidiaries shall procure that (i) LSG and LSD shall together hold not less than 35% of the total issued share capital of the Company at all times throughout the terms of the facilities, (ii) LSG and/or LSD will remain as the single largest shareholder of the Company, and (iii) LSG will maintain management control of the Company.

The outstanding loan balances of these facilities at the balance sheet date amounted to approximately HK$782 million, with the last instalment repayment falling due within one year from the balance sheet date.

# Report of the Directors

## DISCLOSURE PURSUANT TO PARAGRAPH 13.22 OF CHAPTER 13 OF THE LISTING RULES

At the balance sheet date, the Group had amounts due from affiliated companies which in total exceeded 8% of the Group's total assets as at 31 July 2007. The total amounts due from affiliated companies represented approximately 9% of the Group's total assets of HK$10,423,587,000 as at 31 July 2007.

The proforma combined balance sheet of the affiliated companies as at 31 July 2007 is as follows:

| | HK$'000 |
|---|---|
| Interests in joint venture | 837,963 |
| Investment properties | 600,000 |
| Properties under development | 726,730 |
| Fixed assets | 846 |
| Net current liabilities | (124,619) |
| Total assets less current liabilities | 2,040,920 |
| Amounts due to shareholders | (2,272,143) |
| Deferred tax liabilities | (77,763) |
| | (308,986) |
| **Capital and reserves** | |
| Issued capital | 40,012 |
| Reserves | (362,343) |
| | (322,331) |
| Minority interests | 13,345 |
| | (308,986) |



## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year ended 31 July 2007, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 July 2007.

# Report of the Directors

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 38 to 41 of this report.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company still considers all of the independent non-executive directors to be independent.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming 2007 Annual General Meeting.

On behalf of the Board

**Lam Kin Ngok, Peter**
*Chairman*

Hong Kong
9 November 2007

# Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Code on Corporate Governance practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1 January 2005.

## (1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the CG Code throughout the accounting period covered by this Annual Report save for the following deviations from code provisions A.4.1 and E.1.2:

**Code Provision A.4.1**

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive Directors of the Company is appointed for a specific term. However, all Directors of the Company are subject to the retirement provisions in the Articles of Association of the Company which provide that the Directors for the time being shall retire from office by rotation once every three years since their last election at each annual general meeting and a retiring Director shall be eligible for re-election.

**Code Provision E.1.2**

Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the Annual General Meeting of the Company held on 22 December 2006.



## (2) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a Code for Securities Transactions by Directors (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the year ended 31 July 2007.

## (3) BOARD OF DIRECTORS

(3.1) The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely, the Executive Committee, Audit Committee and Remuneration Committee. Specific responsibilities have been delegated to the above committees.

(3.2) The Board comprises ten executive Directors, namely, Mr. Lam Kin Ngok, Peter (Chairman), Mr. Lam Kin Ming (Deputy Chairman), Mr. Lam Kin Hong, Matthew (Executive Deputy Chairman), Mr. Lam Hau Yin, Lester (Chief Executive Officer), Madam U Po Chu, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven, Mr. Cheung Sum, Sam, Ms. Leung Churk Yin, Jeanny and Mr. Cheng Shin How; one non-executive Director, namely, Mr. Lim Ming Yan (Alternate director: Cheong Kwok Mun) and three independent non-executive Directors, namely, Mr. Wong Yee Sui, Andrew, Mr. Lam Bing Kwan and Mr. Ku Moon Lun.

# Corporate Governance Report

(3.3) The Board met four times during the financial year ended 31 July 2007. The attendance record of individual director at these board meetings is set out in the following table:

| Directors | No. of Board Meetings Held | Attended |
|---|---|---|
| **Executive Directors #** | | |
| Lam Kin Ngok, Peter *(Chairman)* | 4 | 0 |
| Lam Kin Ming *(Deputy Chairman)* | 4 | 2 |
| Lam Kin Hong, Matthew *(Executive Deputy Chairman)* | 4 | 3 |
| Lam Hau Yin, Lester *(Chief Executive Officer)* | 4 | 3 |
| U Po Chu | 4 | 0 |
| Lau Shu Yan, Julius | 4 | 4 |
| Tam Kin Man, Kraven | 4 | 4 |
| Cheung Sum, Sam + | 1 | 1 |
| Cheng Shin How + | 1 | 1 |
| Lee Po On * | 1 | 1 |
| **Non-Executive Directors** | | |
| Lim Ming Yan (Alternate: Cheong Kwok Mun) | 4 | 4 |
| Lui Chong Chee * | 3 | 2 |
| Lam Kin Ko, Stewart * | 0 | 0 |
| **Independent Non-Executive Directors** | | |
| Wong Yee Sui, Andrew | 4 | 4 |
| Lam Bing Kwan | 4 | 4 |
| Ku Moon Lun | 4 | 3 |

\+ *appointed during the year*

* *already retired/resigned*

\# *Ms. Leung Churk Yin, Jeanny was appointed a director with effect from 1 September 2007*

(3.4) The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules. All Independent Non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules.

(3.5) Mr. Lam Kin Ngok, Peter is the son of Madam U Po Chu and the father of Mr. Lam Hau Yin, Lester. Mr. Lam Kin Hong, Matthew is the younger brother of Mr. Lam Kin Ming and Mr. Lam Kin Ngok, Peter.

Save as disclosed above and in the "Biographical Details of Directors and Senior Management" section of this report, none of the Directors of the Company has any financial, business, family or other material/relevant relationships with one another.

# Corporate Governance Report

## (4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive Officer be separated and not performed by the same individual.

During the year under review, Mr. Lam Kin Ngok, Peter was the Chairman of the Company while Mr. Lam Hau Yin, Lester acted as the Chief Executive Officer of the Company.

## (5) NON-EXECUTIVE DIRECTORS

As explained in paragraph (1) above, none of the existing non-executive Directors of the Company is appointed for a specific term.

## (6) REMUNERATION COMMITTEE

(6.1) The Board established a Remuneration Committee on 18 November 2005, which now comprises three Independent Non-executive Directors, namely, Mr. Lam Bing Kwan (Chairman), Mr. Wong Yee Sui, Andrew, Mr. Ku Moon Lun and a non-executive Director, Mr. Lim Ming Yan. Mr. Lee Po On ceased to be a member of the Remuneration Committee on 22 December 2006. Mr. Lui Chong Chee resigned and Mr. Lim Ming Yan was appointed a member of the Remuneration Committee on 4 June 2007.

(6.2) The Remuneration Committee has been charged with the responsibility to recommend to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all directors and senior management, including but not limited to directors' fees, salaries, allowances, bonuses, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.



(6.3) The Remuneration Committee held two meetings during the year to discuss remuneration-related matters.

The attendance record of individual member at these Remuneration Committee Meetings is set out in the following table:

| | No. of Remuneration Committee Meetings | |
|---|---|---|
| **Committee Members** | **Held** | **Attended** |
| Lam Bing Kwan | 2 | 2 |
| Wong Yee Sui, Andrew | 2 | `2 |
| Lim Ming Yan + | 1 | 0 |
| Ku Moon Lun | 2 | 2 |
| Lui Chong Chee * | 1 | 1 |
| Lee Po On * | 0 | 0 |

+ *appointed during the year*

* *already retired/resigned*

# Corporate Governance Report

## (7) NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Potential new directors will be recruited based on their skills, experience and expertise and the requirements of the Company at the relevant time. The process of identifying and selecting appropriate candidates for approval by the Board will be carried out by the executive directors of the Company.

## (8) AUDITORS' REMUNERATION

The auditors of the Company, Ernst & Young, received audit fees amounting to HK$1,740,000 for the year under review. The Company has also paid a total of HK$2,095,000 to the auditors for non-audit service assignments including HK$1,880,000 for the professional services provided in relation to a review of the Group's interim results and the issuance of the Senior Notes due 2014 during the year.

## (9) AUDIT COMMITTEE

(9.1) The board established an Audit Committee which currently comprises two of the Independent Non-executive Directors, namely, Messrs. Wong Yee Sui, Andrew (Chairman) and Lam Bing Kwan, and a non-executive Director, Mr. Lim Ming Yan.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of the periodical financial statements of the Company and the review of significant financial reporting judgments contained in them before submission to the Board for approval.

The Company has complied with Rule 3.21 of the Listing Rules in that one of the members of the Audit Committee possesses appropriate professional qualifications or accounting or related financial management experience.

(9.2) The Audit Committee held two meetings during the year under review. All members of the Audit Committee, namely, Messrs. Wong Yee Sui, Andrew, Lam Bing Kwan and Lim Ming Yan, attended all the meetings.

(9.3) The Audit Committee reviewed the half-yearly and annual results of the Company, and other matters related to the financial and accounting policies and practices of the Company.

## (10) FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with accounting principles generally accepted in Hong Kong.

The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the auditors contained in this Annual Report.

## (11) INTERNAL CONTROL

During the year, Horwath Risk Advisory Services Limited has been engaged to perform internal audit functions and to assist the Board in reviewing the effectiveness of the internal control system of the Group. The periodic review will cover all material controls, including financial, operational and compliance controls and risk management functions of the Group.

# Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

**To the shareholders of Lai Fung Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements of Lai Fung Holdings Limited set out on pages 44 to 121, which comprise the consolidated and company balance sheets as at 31 July 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.



## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditors' Report

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

9 November 2007

# Consolidated Income Statement

Year ended 31 July 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| TURNOVER | 5 | **792,420** | 703,352 |
| Cost of sales | | **(367,111)** | (328,615) |
| Gross profit | | **425,309** | 374,737 |
| Other income and gains | 5 | **108,559** | 76,219 |
| Selling expenses | | **(11,812)** | ( 28,284) |
| Administrative expenses | | **(105,956)** | (105,625) |
| Other operating expenses, net | | **( 24,185)** | (15,279) |
| Fair value gain on investment properties | 16 | **193,837** | 58,828 |
| PROFIT FROM OPERATING ACTIVITIES | 7 | **585,752** | 360,596 |
| Finance costs | 6 | **(107,542)** | (60,320) |
| Share of profits of associates | | **81,706** | 3,907 |
| Write-back of provision for amounts due from associates | | **12,630** | 6,175 |
| PROFIT BEFORE TAX | | **572,546** | 310,358 |
| Tax | 10 | **( 64,272)** | (164,098) |
| PROFIT FOR THE YEAR | | **508,274** | 146,260 |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | 11 | **470,351** | 132,745 |
| Minority interests | | **37,923** | 13,515 |
| | | **508,274** | 146,260 |
| DIVIDENDS | 12 | | |
| Proposed final | | **32,192** | 8,048 |
| EARNINGS PER SHARE | 13 | | |
| Basic | | **5.84 cents** | 2.15 cents |
| Diluted | | **N/A** | N/A |

# Consolidated Balance Sheet

31 July 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **669,668** | 666,683 |
| Properties under development | 15 | **2,107,681** | 1,937,211 |
| Investment properties | 16 | **3,673,600** | 3,189,300 |
| Prepaid land lease payments | 17 | **5,531** | 5,371 |
| Goodwill | 18 | **4,561** | 4,561 |
| Interests in associates | 20 | **1,057,982** | 770,917 |
| Available-for-sale investments | 21 | **—** | 13,464 |
| Long term deposits | 23 | **25,904** | — |
| Pledged time deposits | 24 | **118,914** | — |
| Total non-current assets | | **7,663,841** | 6,587,507 |
| CURRENT ASSETS | | | |
| Properties under development | 15 | **390,209** | 186,243 |
| Completed properties for sale | 22 | **10,591** | 46,672 |
| Debtors, deposits and prepayments | 23 | **106,415** | 62,133 |
| Tax recoverable | | **—** | 12,312 |
| Pledged and restricted time deposits and bank balances | 24 | **321,160** | 207,738 |
| Cash and cash equivalents | 24 | **1,931,371** | 899,125 |
| Total current assets | | **2,759,746** | 1,414,223 |
| CURRENT LIABILITIES | | | |
| Creditors and accruals | 25 | **455,480** | 326,192 |
| Deposits received and deferred income | | **17,729** | 317,161 |
| Rental deposits received | | **20,700** | 13,858 |
| Interest-bearing bank loans, secured | 26 | **894,265** | 89,723 |
| Tax payable | | **231,425** | 134,404 |
| Total current liabilities | | **1,619,599** | 881,338 |
| NET CURRENT ASSETS | | **1,140,147** | 532,885 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **8,803,988** | 7,120,392 |
| NON-CURRENT LIABILITIES | | | |
| Long term rental deposits received | | **17,101** | 21,931 |
| Interest-bearing bank loans, secured | 26 | **123,343** | 753,859 |
| Promissory note | 27 | **167,000** | 167,000 |
| Advances from a substantial shareholder | 28 | **48,273** | 45,542 |
| Fixed rate senior notes | 29 | **1,513,431** | — |
| Derivative financial instruments | 30 | **72,859** | — |
| Deferred tax liabilities | 31 | **593,692** | 627,752 |
| Total non-current liabilities | | **2,535,699** | 1,616,084 |
| | | **6,268,289** | 5,504,308 |

# Consolidated Balance Sheet

31 July 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| EQUITY | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | 32 | **804,796** | 804,796 |
| Share premium account | | **3,876,668** | 3,876,668 |
| Investment revaluation reserve | | **—** | (1,456) |
| Share option reserve | | **1,842** | — |
| Hedge reserve | | **(41,780)** | — |
| Exchange fluctuation reserve | | **431,398** | 145,071 |
| Capital reserve | | **(457)** | (457) |
| Retained earnings | | **851,324** | 413,165 |
| Proposed final dividends | 12 | **32,192** | 8,048 |
| | | **5,955,983** | 5,245,835 |
| **Minority interests** | | **312,306** | 258,473 |
| | | **6,268,289** | 5,504,308 |



**Lam Kin Ngok, Peter**
*Director*

**Lam Hau Yin, Lester**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 July 2007

| | Notes | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | Share premium account | Investment revaluation reserve | Share option reserve | Hedge reserve | Exchange fluctuation reserve | Capital reserve | Retained earnings | Proposed final dividends | Sub-total | Minority interests | Total |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 August 2005 | | 587,296 | 3,224,676 | – | – | – | 82,618 | (457) | 288,468 | – | 4,182,601 | 219,162 | 4,401,763 |
| Change in fair value of available-for-sale investments | | – | – | (1,456) | – | – | – | – | – | – | (1,456) | – | (1,456) |
| Exchange realignment: | | | | | | | | | | | | | |
| Subsidiaries | | – | – | – | – | – | 60,893 | – | – | – | 60,893 | 3,833 | 64,726 |
| Associates | | – | – | – | – | – | 3,511 | – | – | – | 3,511 | – | 3,511 |
| Total income and expense recognised directly in equity | | – | – | (1,456) | – | – | 64,404 | – | – | – | 62,948 | 3,833 | 66,781 |
| Profit for the year | | – | – | – | – | – | – | – | 132,745 | – | 132,745 | 13,515 | 146,260 |
| Total income and expense for the year | | – | – | (1,456) | – | – | 64,404 | – | 132,745 | – | 195,693 | 17,348 | 213,041 |
| Acquisition of subsidiaries | 35 | – | – | – | – | – | – | – | – | – | – | 21,963 | 21,963 |
| Release of reserve upon disposal of interests in subsidiaries | 36 | – | – | – | – | – | (1,951) | – | – | – | (1,951) | – | (1,951) |
| Issue of shares | 32 | 217,500 | 652,500 | – | – | – | – | – | – | – | 870,000 | – | 870,000 |
| Share issue expenses | 32 | – | (508) | – | – | – | – | – | – | – | (508) | – | (508) |
| Proposed final 2006 dividends | 12 | – | – | – | – | – | – | – | (8,048) | 8,048 | – | – | – |
| At 31 July 2006 and 1 August 2006 | | 804,796 | 3,876,668 | (1,456) | – | – | 145,071 | (457) | 413,165 | 8,048 | 5,245,835 | 258,473 | 5,504,308 |

# Consolidated Statement of Changes in Equity

Year ended 31 July 2007

| | | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 | Share premium account HK$'000 | Investment revaluation reserve HK$'000 | Share option reserve HK$'000 | Hedge reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Capital reserve HK$'000 | Retained earnings HK$'000 | Proposed final dividends HK$'000 | Sub-total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 31 July 2006 and 1 August 2006 | | 804,796 | 3,876,668 | (1,456) | – | – | 145,071 | (457) | 413,165 | 8,048 | 5,245,835 | 258,473 | 5,504,308 |
| Change in fair value of available-for-sale investments | | – | – | 2,258 | – | – | – | – | – | – | 2,258 | – | 2,258 |
| Net losses on cash flow hedges | 30 | – | – | – | – | (41,780) | – | – | – | – | (41,780) | – | (41,780) |
| Exchange realignment: | | | | | | | | | | | | | |
| Subsidiaries | | – | – | – | – | – | 260,851 | – | – | – | 260,851 | 15,910 | 276,761 |
| Associates | | – | – | – | – | – | 25,476 | – | – | – | 25,476 | – | 25,476 |
| Total income and expense recognised directly in equity | | – | – | 2,258 | – | (41,780) | 286,327 | – | – | – | 246,805 | 15,910 | 262,715 |
| Profit for the year | | – | – | – | – | – | – | – | 470,351 | – | 470,351 | 37,923 | 508,274 |
| Total income and expense for the year | | – | – | 2,258 | – | (41,780) | 286,327 | – | 470,351 | – | 717,156 | 53,833 | 770,989 |
| Disposal of available-for-sale investments | 5 | – | – | (802) | – | – | – | – | – | – | (802) | – | (802) |
| Equity-settled share option arrangements | 33 | – | – | – | 1,842 | – | – | – | – | – | 1,842 | – | 1,842 |
| Final 2006 dividends paid | 12 | – | – | – | – | – | – | – | – | (8,048) | (8,048) | – | (8,048) |
| Proposed final 2007 dividends | 12 | – | – | – | – | – | – | – | (32,192) | 32,192 | – | – | – |
| At 31 July 2007 | | 804,796 | 3,876,668 | – | 1,842 | (41,780) | 431,398 | (457) | 851,324 | 32,192 | 5,955,983 | 312,306 | 6,268,289 |

# Consolidated Cash Flow Statement

Year ended 31 July 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **572,546** | 310,358 |
| Adjustments for: | | | |
| Fair value gain on investment properties | | **(193,837)** | (58,828) |
| Finance costs | 6 | **107,542** | 60,320 |
| Share of profits of associates | | **(81,706)** | (3,907) |
| Write-back of provision for amounts due from associates | | **(12,630)** | (6,175) |
| Interest income | 5 | **(43,327)** | (8,054) |
| Gain on disposal of interests in subsidiaries | 5 | **—** | (14,926) |
| Gain on disposal of available-for-sale investments | 5 | **(802)** | — |
| Depreciation | 7 | **23,953** | 21,052 |
| Recognition of prepaid land lease payments | 7 | **156** | 150 |
| Foreign exchange differences, net | 7 | **7,995** | (6,524) |
| Provision for bad and doubtful debts | 7 | **—** | 1,869 |
| Loss on disposal of items of property, plant and equipment | 7 | **368** | 1,979 |
| Equity-settled share option expense | 7 | **1,842** | — |
| Operating profit before working capital changes | | **382,100** | 297,314 |
| Decrease/(increase) in completed properties for sale | | **325,397** | (37,989) |
| Decrease/(increase) in debtors, deposits and prepayments | | **(1,005)** | 60,037 |
| Increase/(decrease) in creditors and accruals, deposits received and deferred income, and short term rental deposits received | | **(311,413)** | 74,743 |
| Decrease in long term rental deposits received | | **(4,830)** | (1,326) |
| Cash generated from operations | | **390,249** | 392,779 |
| Mainland China taxes paid, net | | **(52,925)** | (32,730) |
| Net cash inflow from operating activities | | **337,324** | 360,049 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **43,316** | 7,989 |
| Purchases of items of property, plant and equipment | | **(13,171)** | (60,184) |
| Proceeds from disposal of items of property, plant and equipment | | **—** | 35 |
| Additions to properties under development | | **(240,341)** | (245,974) |
| Purchase of available-for-sale investments | | **—** | (14,920) |
| Proceeds from disposal of available-for-sale investments | | **15,722** | — |
| Acquisition of subsidiaries | 35 | **(268,193)** | 833 |
| Disposal of interests in subsidiaries | 36 | **—** | 98,575 |
| Advances of loans to associates | | **(167,242)** | (23,932) |
| Increase in long term deposits | | **(25,904)** | — |
| Increase in pledged and restricted time deposits and bank balances | | **(232,336)** | (192,497) |
| Net cash outflow from investing activities | | **(888,149)** | (430,075) |

# Consolidated Cash Flow Statement

Year ended 31 July 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Gross proceeds from issue of shares | 32 | — | 644,000 |
| Share issue expenses | 32 | — | (508) |
| Proceeds from issue of fixed rate senior notes, net of issue expenses | 29 | **1,511,809** | — |
| New bank loans | | **224,289** | 93,259 |
| Repayment of bank loans | | **(85,802)** | (205,592) |
| Interest paid | | **(75,963)** | (62,062) |
| Dividends paid | | **(8,048)** | — |
| Net cash inflow from financing activities | | **1,566,285** | 469,097 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **1,015,460** | 399,071 |
| Cash and cash equivalents at beginning of year | | **899,125** | 492,520 |
| Effect of foreign exchange rate changes, net | | **16,786** | 7,534 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **1,931,371** | 899,125 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Non-pledged cash and bank balances | 24 | **640,121** | 244,093 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 24 | **1,291,250** | 655,032 |
| | | **1,931,371** | 899,125 |

# Balance Sheet

31 July 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 19 | **5,523,468** | 4,464,586 |
| CURRENT ASSETS | | | |
| Deposits and prepayments | 23 | **12,923** | 263 |
| Cash and cash equivalents | 24 | **1,286,151** | 805,587 |
| Total current assets | | **1,299,074** | 805,850 |
| CURRENT LIABILITIES | | | |
| Creditors and accruals | 25 | **63,971** | 17,014 |
| NET CURRENT ASSETS | | **1,235,103** | 788,836 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **6,758,571** | 5,253,422 |
| NON-CURRENT LIABILITIES | | | |
| Promissory note | 27 | **167,000** | 167,000 |
| Fixed rate senior notes | 29 | **1,513,431** | — |
| Derivative financial instruments | 30 | **72,859** | — |
| Total non-current liabilities | | **1,753,290** | 167,000 |
| | | **5,005,281** | 5,086,422 |
| EQUITY | | | |
| Issued capital | 32 | **804,796** | 804,796 |
| Reserves | 34(b) | **4,168,293** | 4,273,578 |
| Proposed final dividends | 12 | **32,192** | 8,048 |
| | | **5,005,281** | 5,086,422 |

**Lam Kin Ngok, Peter**
*Director*

**Lam Hau Yin, Lester**
*Director*

# Notes to Financial Statements

31 July 2007

## 1. CORPORATE INFORMATION

Lai Fung Holdings Limited is a limited liability company incorporated in the Cayman Islands.

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

The principal activities of the Group have not changed during the year and consisted of property development for sale and property investment for rental purposes.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 investment properties, available-for-sale investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.



The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

### 2.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

| | |
|---|---|
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |

The principal changes in accounting policies are as follows:

**(a) HKAS 21 "The Effects of Changes in Foreign Exchange Rates"**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements, irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 July 2007 or 31 July 2006.



**(b) HKAS 39 "Financial Instruments: Recognition and Measurement"**

***(i) Amendment for financial guarantee contracts***

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contract, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

***(ii) Amendment for cash flow hedge accounting of forecast intragroup transactions***

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

***(iii) Amendment for the fair value option***

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

# Notes to Financial Statements

31 July 2007

## 2.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

**(c) HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease"**

The Group has adopted this interpretation as of 1 August 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

**(d) HK(IFRIC)-Int 8 "Scope of HKFRS 2"**

This interpretation requires HKFRS 2 "Share-based Payment" to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share option scheme, the adoption of this interpretation has had no impact on the financial position of the Group.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, applicable to these financial statements, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKAS 23 (Revised) | Borrowing Costs |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |



The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

# Notes to Financial Statements

31 July 2007

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

HKAS 23 (Revised) shall be applied for accounting period beginning on or after 1 January 2009 and will supersede HKAS 23 "Borrowing Costs" issued in 2004. The standard requires borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation".

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 should be applied for the accounting periods beginning on or after 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

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

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

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Joint ventures**

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture; or

(b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

**Associates**

An associate is an entity, 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 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 income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill**

Goodwill arising on the acquisition of subsidiaries or associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".



Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

***Goodwill previously eliminated against the consolidated reserves***

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3 "Business Combinations", such goodwill remains eliminated against the consolidated reserves and is not recognised in income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of non-financial assets other than goodwill**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than completed properties for sale, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties**

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment including owner-operated service apartments, other than investment properties and properties under development, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.



Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land and buildings | Over the remaining lease terms of the land |
| Service apartments | Over the remaining lease terms of the land |
| Leasehold improvements | 10% - 20% |
| Furniture, fixtures and equipments | 18% - 20% |
| Motor vehicles | 18% - 25% |
| Computers | 18% - 25% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment and depreciation (continued)**

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.



When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

**Properties under development**

Properties under development represents properties developed for sale or to earn rental income, and are stated at cost less any impairment losses. Cost comprises the prepaid land lease payments, building costs and any other direct costs attributable to the development of the properties. Borrowing costs, professional fees, and other related expenses incurred during the construction or development phase of the property are capitalised as part of the costs of that property.

Once the constructions or developments of these properties are completed, these properties are reclassified to the appropriate asset categories.

**Completed properties for sale**

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

**Investments and other financial assets**

Financial assets in the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets (continued)**

***Financial assets at fair value through profit or loss (continued)***

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

***Available-for-sale financial assets***

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.



When the fair values of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

***Fair value***

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.



In relation to debtors, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the debtors is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

***Assets carried at cost***

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

***Available-for-sale financial assets***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.



**Financial liabilities at amortised cost (including interest-bearing loans and borrowings)**

Financial liabilities including creditors and accruals, interest-bearing bank loans, promissory note, advances from a substantial shareholder, and fixed rate senior notes, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

**Financial guarantee contracts**

Financial guarantee contracts under the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

**Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as cross currency swaps to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair values of cross currency swap agreements are estimated at the amounts that the Group would receive or pay to terminate the agreements at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the swap counterparties.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments and hedging (continued)**

Hedges which meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

***Cash flow hedges***

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

**Cash and cash equivalents**

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



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

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax**

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Mainland China land appreciation tax ("LAT")**

LAT is levied at prevailing progressive rates on the appreciation of the land value, being the proceeds from sales of properties less tax deductible costs.

**Revenue recognition**

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



(a) from the sale of properties, upon the establishment of a binding contract in respect of the sale of properties, and on the attainment of the relevant completion certificates by the government authorities concerned, whichever is later;

(b) rental and property management fee income is recognised in the period in which the properties are let and on the straight-line basis over the lease terms;

(c) service fee income is recognised when services have been rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits**

***Share-based payment transactions***

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes formula, further details of which are set out in note 33 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.



Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

***Pension schemes***

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Those subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

**Borrowing costs**

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

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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



## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***(i) Classification between investment properties and owner-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

# Notes to Financial Statements

31 July 2007

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Judgements (continued)**

***(i) Classification between investment properties and owner-occupied properties (continued)***

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

***(ii) Impairment of non-financial assets***

The Group has to exercise judgement in determining whether a non-financial asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.



***(iii) Income tax***

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

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***(i) Estimation of fair value of investment properties and recoverable amounts of properties under development and completed properties for sale***

The best evidence of fair value is current prices in an active market for similar lease terms and other contracts. In the absence of such information, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.



***(ii) Estimation of total budgeted costs and costs to completion for properties under development***

Total budgeted costs for properties under development comprise (i) prepaid land lease payments, (ii) building costs, and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development, management makes reference to information such as (i) current offers from contractors and suppliers, (ii) recent offers agreed with contractors and suppliers, and (iii) professional estimation on construction and material costs.

***(iii) Useful lives and residual values of items of property, plant and equipment***

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that is used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

# Notes to Financial Statements

31 July 2007

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty (continued)**

***(iv) Impairment of non-financial assets***

The Group determines whether a non-financial asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the previous estimation.

***(v) Fair values of derivative financial instruments***

The fair values of cross currency swap agreements are the estimated amounts that the Group would receive or pay to terminate the swap agreements at the balance sheet date, taking into account current market conditions and the current creditworthiness of the swap counterparties.

## 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting format, by business segment.

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

(a) the property development segment engages in the development of properties in Mainland China; and

(b) the property investment segment invests in service apartments, as well as commercial and office buildings in Mainland China for their rental income potential.

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

# Notes to Financial Statements

31 July 2007

## 4. SEGMENT INFORMATION (continued)

**Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 July 2007 and 2006.

**Group**

| | Property development | | Property investment | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 (Restated) |
| **Segment revenue** | | | | | | |
| Sales to external customers | **571,347** | 505,731 | **221,073** | 197,621 | **792,420** | 703,352 |
| Other revenue | **3,868** | 2,315 | **50,621** | 46,898 | **54,489** | 49,213 |
| Total | **575,215** | 508,046 | **271,694** | 244,519 | **846,909** | 752,565 |
| **Segment results** | **243,999** | 190,462 | **341,628** | 182,261 | **585,627** | 372,723 |
| Unallocated gains | | | | | **54,070** | 27,006 |
| Unallocated expenses, net | | | | | **(53,945)** | (39,133) |
| Profit from operating activities | | | | | **585,752** | 360,596 |
| Finance costs | | | | | **(107,542)** | (60,320) |
| Share of profits of associates | **—** | — | **81,706** | 3,907 | **81,706** | 3,907 |
| Write-back of provision for amounts due from associates | **—** | — | **12,630** | 6,175 | **12,630** | 6,175 |
| Profit before tax | | | | | **572,546** | 310,358 |
| Tax | | | | | **(64,272)** | (164,098) |
| Profit for the year | | | | | **508,274** | 146,260 |
| **Assets and liabilities** | | | | | | |
| Segment assets | **1,707,890** | 1,272,567 | **5,217,882** | 5,046,841 | **6,925,772** | 6,319,408 |
| Interests in associates | **—** | — | **1,057,982** | 770,917 | **1,057,982** | 770,917 |
| Unallocated assets | | | | | **2,439,833** | 911,405 |
| Total assets | | | | | **10,423,587** | 8,001,730 |
| Segment liabilities | **173,273** | 435,505 | **159,254** | 132,623 | **332,527** | 568,128 |
| Unallocated liabilities | | | | | **3,822,771** | 1,929,294 |
| Total liabilities | | | | | **4,155,298** | 2,497,422 |
| **Other segment information** | | | | | | |
| Depreciation | **822** | 1,215 | **20,223** | 18,762 | **21,045** | 19,977 |
| Capital expenditure | **206,441** | 343,822 | **59,626** | 65,933 | **266,067** | 409,755 |
| Fair value gain on investment properties | **—** | — | **193,837** | 58,828 | **193,837** | 58,828 |

# Notes to Financial Statements

31 July 2007

## 5. TURNOVER, OTHER INCOME AND GAINS

The Group's turnover represents proceeds from the sale of properties and rental income from service apartments and investment properties.

An analysis of the Group's turnover, other income and gains is as follows:

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Note | **HK$'000** | HK$'000 |
| Turnover: | | | |
| Sale of properties | | **571,347** | 505,731 |
| Rental income from service apartments and investment properties | | **221,073** | 197,621 |
| | | **792,420** | 703,352 |
| Other income and gains: | | | |
| Management fee income | | **48,411** | 43,009 |
| Interest income from: | | | |
| Bank deposits | | **42,653** | 7,904 |
| An associate | | **674** | 150 |
| Gain on disposal of interests in subsidiaries | 36 | **—** | 14,926 |
| Gain on disposal of available-for-sale investments | | **802** | — |
| Others | | **16,019** | 10,230 |
| | | **108,559** | 76,219 |

# Notes to Financial Statements

31 July 2007

## 6. FINANCE COSTS

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Notes | **HK$'000** | HK$'000 |
| Interest on: | | | |
| Bank loans wholly repayable within five years | | **62,527** | 57,619 |
| Bank loan repayable beyond five years | | **1,294** | 692 |
| Promissory note | | **13,053** | 2,306 |
| Fixed rate senior notes, net * | | **33,189** | — |
| Amortisation of fixed rate senior notes | 29 | **1,622** | — |
| Bank charges | | **2,649** | 2,915 |
| | | **114,334** | 63,532 |
| Less: Interest capitalised in properties under development | 15 | **(6,792)** | (3,212) |
| Total finance costs | | **107,542** | 60,320 |

* *Net of interest saving of HK$12,705,000 (2006: Nil) arising from cash flow hedges (note 30).*

# Notes to Financial Statements

31 July 2007

## 7. PROFIT FROM OPERATING ACTIVITIES

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

| | Notes | 2007 HK$'000 | 2006 HK$'000 (Restated) |
|---|---|---|---|
| Cost of completed properties sold | | **318,230** | 286,883 |
| Outgoings in respect of rental income | | **48,881** | 41,732 |
| Total cost of sales | | **367,111** | 328,615 |
| Depreciation # | 14 | **23,953** | 21,052 |
| Recognition of prepaid land lease payments | | **8,003** | 7,133 |
| Capitalised in properties under development | 15 | **(7,847)** | (6,983) |
| | 17 | **156** | 150 |
| Minimum lease payments under operating leases in respect of land and buildings | | **2,529** | 2,364 |
| Auditors' remuneration | | **1,740** | 1,380 |
| Employee benefits expense (including directors' remuneration – note 8): | | | |
| Wages and salaries | | **64,073** | 49,072 |
| Equity-settled share option expense | 33 | **1,842** | — |
| Pension scheme contributions * | | **497** | 517 |
| | | **66,412** | 49,589 |
| Capitalised in properties under development | | **(31,267)** | (20,480) |
| | | **35,145** | 29,109 |
| Foreign exchange differences, net ** | | **7,995** | (6,524) |
| Guaranteed service apartment rental returns | | **3,271** | 3,220 |
| Provision for bad and doubtful debts ** | | **—** | 1,869 |
| Loss on disposal of items of property, plant and equipment | | **368** | 1,979 |

# *Depreciation charge of HK$14,732,000 (2006: HK$14,572,000) for service apartments is included in "Other operating expenses, net" on the face of the consolidated income statement.*

* *At 31 July 2007, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in future years (2006: Nil).*

** *These expenses/(incomes) are included in "Other operating expenses, net" on the face of the consolidated income statement. Foreign exchange differences included exchange loss of HK$31,079,000 (2006: Nil) arising from cash flow hedges (note 30).*

## 8. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Fees | **252** | 589 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **9,971** | 10,445 |
| Employee share option benefits | **1,159** | — |
| Pension scheme contributions | **61** | 91 |
| | **11,191** | 10,536 |
| | **11,443** | 11,125 |
| Capitalised in properties under development | **(7,697)** | (6,260) |
| | **3,746** | 4,865 |

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Wong Yee Sui, Andrew | **60** | 60 |
| Lam Bing Kwan | **60** | 60 |
| Ku Moon Lun | **62** | — |
| Mui Ying Chun, Robert | — | 10 |
| Wan Yee Hwa, Edward | — | 45 |
| | **182** | 175 |

# Notes to Financial Statements

31 July 2007

## 8. DIRECTORS' REMUNERATION (continued)

### (a) Independent non-executive directors (continued)

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

### (b) Executive directors and non-executive directors

| | Fees | Salaries, allowances, and benefits in kind | Employee share option benefits | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2007** | | | | | |
| Executive directors: | | | | | |
| Lam Kin Ngok, Peter | — | 2,000 | — | — | 2,000 |
| Lam Kin Ming | — | 1,140 | — | — | 1,140 |
| Lam Kin Hong, Matthew | — | 1,140 | — | 57 | 1,197 |
| Lam Hau Yin, Lester | — | 841 | — | — | 841 |
| U Po Chu | — | 3,980 | — | — | 3,980 |
| Lee Po On | 52 | — | — | — | 52 |
| Lau Shu Yan, Julius | — | — | — | — | — |
| Tam Kin Man, Kraven | — | — | 1,159 | — | 1,159 |
| Cheung Sum, Sam | — | 269 | — | 1 | 270 |
| Cheng Shin How | — | 550 | — | 2 | 552 |
| | 52 | 9,920 | 1,159 | 60 | 11,191 |
| Non-executive directors: | | | | | |
| Lam Kin Ko, Stewart | 18 | 51 | — | 1 | 70 |
| Lim Ming Yan | — | — | — | — | — |
| Cheong Kwok Mun | — | — | — | — | — |
| Lui Chong Chee | — | — | — | — | — |
| | 18 | 51 | — | 1 | 70 |
| Total | 70 | 9,971 | 1,159 | 61 | 11,261 |

# Notes to Financial Statements

31 July 2007

## 8. DIRECTORS' REMUNERATION (continued)

### (b) Executive directors and non-executive directors (continued)

| | Fees HK$'000 | Salaries, allowances, and benefits in kind HK$'000 | Employee share option benefits HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|---|
| 2006 | | | | | |
| Executive directors: | | | | | |
| Lam Kin Ngok, Peter | — | 2,000 | — | — | 2,000 |
| Lam Kin Ming | — | 1,560 | — | — | 1,560 |
| Lam Kin Hong, Matthew | — | 1,630 | — | 74 | 1,704 |
| Lam Hau Yin, Lester | — | 350 | — | — | 350 |
| Ho Wing Tim | 95 | 320 | — | 5 | 420 |
| U Po Chu | — | 3,697 | — | — | 3,697 |
| Lee Po On | 103 | — | — | — | 103 |
| Lau Shu Yan, Julius | — | — | — | — | — |
| Tam Kin Man, Kraven | — | — | — | — | — |
| | 198 | 9,557 | — | 79 | 9,834 |
| Non-executive directors: | | | | | |
| Lam Kin Ko, Stewart | 216 | 888 | — | 12 | 1,116 |
| Lim Ming Yan | — | — | — | — | — |
| Lui Chong Chee | — | — | — | — | — |
| | 216 | 888 | — | 12 | 1,116 |
| Total | 414 | 10,445 | — | 91 | 10,950 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

# Notes to Financial Statements

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## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: Nil) non-director, highest paid employees are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **3,159** | — |
| Bonuses | **333** | — |
| Employee share option benefits | **198** | — |
| Pension scheme contributions | **25** | — |
| | **3,715** | — |
| Capitalised in properties under development | **(2,919)** | — |
| | **796** | — |

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



| | Number of employees | |
|---|---|---|
| | **2007** | 2006 |
| HK$1,500,001 to HK$2,000,000 | **1** | — |
| HK$2,000,001 to HK$2,500,000 | **1** | — |
| | **2** | — |

During the year, share options were granted to one non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 33 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

# Notes to Financial Statements

31 July 2007

## 10. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Notes | **HK$'000** | HK$'000 |
| | | | (Restated) |
| Current – Mainland China | | | |
| Corporate income tax | | | |
| Charge for the year | | **79,125** | 67,092 |
| Underprovision in prior years | | **—** | 2,443 |
| Land appreciation tax ("LAT") | 44 | **71,693** | 66,064 |
| Deferred | 31 | **(86,546)** | 28,499 |
| Total tax charge for the year | | **64,272** | 164,098 |

# Notes to Financial Statements

31 July 2007

**10. TAX (continued)**

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Profit before tax | **572,546** | 310,358 |
| Tax at the statutory tax rate | **188,940** | 102,418 |
| Adjustments for tax rates for other jurisdictions | **11,015** | 3,649 |
| Effect of decrease in tax rates on deferred tax | **(160,649)** | — |
| Provision for LAT | **71,693** | 66,064 |
| Tax effect of provision for LAT | **(23,659)** | (21,801) |
| Adjustments in respect of current tax of previous periods | **—** | 2,443 |
| Profits attributable to associates | **(26,963)** | (1,289) |
| Income not subject to tax | **(12,751)** | (10,562) |
| Expenses not deductible for tax | **19,554** | 12,823 |
| Tax losses utilised from previous periods | **—** | 2,322 |
| Tax losses not recognised | **—** | 8,031 |
| Tax losses recognised as deferred tax asset | **(2,908)** | — |
| Tax charge at the Group's effective rate | **64,272** | 164,098 |



**Changes in accounting estimates**

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law") was approved and will be effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, the change in the corporate income tax rate under the New CIT Law has had the following impact on the results and financial positions of the Group for the year ended 31 July 2007.

# Notes to Financial Statements

31 July 2007

## 10. TAX (continued)

**Changes in accounting estimates (continued)**

(a) Effect on the consolidated balance sheet at 31 July 2007:

| | HK$'000 |
|---|---|
| Decrease in deferred tax liabilities | (163,204) |
| Increase in retained earnings | 144,492 |
| Increase in exchange fluctuation reserve | 2,522 |
| Increase in minority interests | 16,190 |
| | — |

(b) Effect on the consolidated income statement for the year ended 31 July 2007:

| | HK$'000 |
|---|---|
| Decrease in deferred tax charge | 160,649 |
| Increase in profit attributable to minority interests | (16,157) |
| | 144,492 |

At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact of the New CIT Law on its operating results and financial positions of future periods as more detailed requirements are issued.



**Tax indemnity**

In connection with the listing of the Company on The Stock Exchange of Hong Kong Limited (currently on the Main Board) (the "Listing"), tax indemnity deeds were signed on 12 November 1997, pursuant to which Lai Sun Development Company Limited ("LSD") has undertaken to indemnify the Group in respect of certain potential Mainland China income taxes and LAT payable or shared by the Group in consequence of the disposal of any of the property interests attributable to the Group through its subsidiaries and its associates as at 31 October 1997 (the "Property Interests"). These tax indemnities given by LSD apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited (currently known as "Knight Frank Petty Limited"), independent professionally qualified valuers, as at 31 October 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31 October 1997 together with the amount of unpaid land costs, unpaid land lease payments and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

# Notes to Financial Statements

31 July 2007

### 10. TAX (continued)

**Tax indemnity (continued)**

The indemnity deeds assume that the Property Interests are disposed of at the value attributed to them in the Valuation, computed by reference to the rates and legislation governing Mainland China income tax and LAT prevailing at the time of the Valuation. The indemnities given by LSD do not cover (i) new properties acquired by the Group subsequent to the Listing; (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of the Group as set out in the Company's prospectus dated 18 November 1997.

The Group had no LAT payable in respect of the Property Interests during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

### 11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 July 2007 includes a loss of HK$33,155,000 (2006: profit of HK$541,170,000) which has been dealt with in the financial statements of the Company (note 34(b)).

### 12. DIVIDENDS

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Proposed final – 0.4 HK cent (2006: 0.1 HK cent) per ordinary share | **32,192** | 8,048 |



The proposed final dividends for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### 13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of HK$470,351,000 (2006: HK$132,745,000), and the weighted average number of 8,047,956,478 (2006: 6,173,381,136) ordinary shares in issue during the year.

All share options of the Company had an anti-dilutive effect on the basic earnings per share amount and have not been included in the diluted earnings per share calculation for the year ended 31 July 2007. The diluted earnings per share amount for the year ended 31 July 2006 had not been disclosed as there was no diluting event that occurred during that year.

# Notes to Financial Statements

31 July 2007

## 14. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Notes | Leasehold land and buildings HK$'000 | Service apartments HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipments HK$'000 | Motor vehicles HK$'000 | Computers HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At 1 August 2005 | | 49,982 | 688,109 | 4,454 | 20,221 | 7,434 | 2,044 | 772,244 |
| Additions | | 45,904 | — | 10,811 | 1,626 | 960 | 883 | 60,184 |
| Disposals | | — | — | (104) | (4,240) | — | (52) | (4,396) |
| Acquisition of subsidiaries | 35 | — | — | 753 | 735 | — | 304 | 1,792 |
| Exchange realignment | | 833 | 3,554 | 73 | 329 | 78 | 23 | 4,890 |
| At 31 July 2006 and 1 August 2006 | | 96,719 | 691,663 | 15,987 | 18,671 | 8,472 | 3,202 | 834,714 |
| Additions | | — | — | 5,746 | 6,732 | 183 | 510 | 13,171 |
| Disposals | | — | — | — | (2,941) | (495) | (198) | (3,634) |
| Acquisition of subsidiaries | 35 | — | — | — | 95 | 297 | 87 | 479 |
| Exchange realignment | | 3,046 | 12,989 | 873 | 1,055 | 343 | 143 | 18,449 |
| **At 31 July 2007** | | **99,765** | **704,652** | **22,606** | **23,612** | **8,800** | **3,744** | **863,179** |
| Accumulated depreciation: | | | | | | | | |
| At 1 August 2005 | | 5,553 | 121,856 | 58 | 14,387 | 3,186 | 1,518 | 146,558 |
| Acquisition of subsidiaries | 35 | — | — | 753 | 710 | — | 251 | 1,714 |
| Depreciation provided during the year | 7 | 1,854 | 14,572 | 1,545 | 1,662 | 1,161 | 258 | 21,052 |
| Disposals | | — | — | (62) | (2,278) | — | (42) | (2,382) |
| Exchange realignment | | 110 | 653 | 16 | 257 | 36 | 17 | 1,089 |
| At 31 July 2006 and 1 August 2006 | | 7,517 | 137,081 | 2,310 | 14,738 | 4,383 | 2,002 | 168,031 |
| Acquisition of subsidiaries | 35 | — | — | — | 84 | 291 | 67 | 442 |
| Depreciation provided during the year | 7 | 2,369 | 14,732 | 2,526 | 2,800 | 1,134 | 392 | 23,953 |
| Disposals | | — | — | — | (2,640) | (446) | (180) | (3,266) |
| Exchange realignment | | 468 | 2,584 | 143 | 897 | 164 | 95 | 4,351 |
| **At 31 July 2007** | | **10,354** | **154,397** | **4,979** | **15,879** | **5,526** | **2,376** | **193,511** |
| Net book value: | | | | | | | | |
| **At 31 July 2007** | | **89,411** | **550,255** | **17,627** | **7,733** | **3,274** | **1,368** | **669,668** |
| At 31 July 2006 | | 89,202 | 554,582 | 13,677 | 3,933 | 4,089 | 1,200 | 666,683 |

# Notes to Financial Statements

31 July 2007

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 July 2007, the Group's leasehold building of HK$44,885,000 (2006: HK$43,757,000) and service apartments of HK$550,255,000 (2006: HK$554,582,000) are situated in Mainland China and are held under medium term leases. The remaining leasehold building of HK$44,526,000 (2006: HK$45,445,000) is situated in Hong Kong and is held under long term lease.

At 31 July 2007, certain leasehold building and service apartments with carrying values of HK$44,526,000 (2006: HK$45,445,000) and HK$550,255,000 (2006: HK$554,582,000), respectively, were pledged to banks to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

## 15. PROPERTIES UNDER DEVELOPMENT

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Notes | **HK$'000** | HK$'000 |
| Carrying amount at 1 August | | **2,123,454** | 1,402,880 |
| Interest capitalised | 6 | **6,792** | 3,212 |
| Other additions | | **259,452** | 396,542 |
| Transfer to completed properties for sale | | **(289,316)** | (150,568) |
| Transfer to investment properties | 16 | **(93,257)** | — |
| Acquisition of subsidiaries | 35 | **348,400** | 577,000 |
| Disposal of interests in subsidiaries | 36 | **—** | (144,655) |
| Exchange realignment | | **142,365** | 39,043 |
| Carrying amount at 31 July | | **2,497,890** | 2,123,454 |
| Portion classified as current assets | | **(390,209)** | (186,243) |
| Non-current portion | | **2,107,681** | 1,937,211 |

### 15. PROPERTIES UNDER DEVELOPMENT (continued)

Included in properties under development were prepaid land lease payments, the movements of which during the year are as follows:

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Note | **HK$'000** | HK$'000 |
| Carrying amount at 1 August | | **318,051** | 305,568 |
| Additions | | **29,476** | 32,828 |
| Recognised during the year | 7 | **(7,847)** | (6,983) |
| Transfer to completed properties for sale | | **(11,367)** | (9,266) |
| Acquisition of subsidiaries | | **29,687** | 11,283 |
| Disposal of interests in subsidiaries | | **—** | (20,386) |
| Exchange realignment | | **18,820** | 5,007 |
| Carrying amount at 31 July | | **376,820** | 318,051 |

All properties under development are situated in Mainland China. An analysis by lease term of the carrying value of the properties under development is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Long term leases | **1,711,766** | 1,417,244 |
| Medium term leases | **786,124** | 706,210 |
| | **2,497,890** | 2,123,454 |

At 31 July 2007, certain properties under development with an aggregate carrying value of HK$858,364,000 (2006: HK$475,970,000) were pledged to banks to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

# Notes to Financial Statements

31 July 2007

## 16. INVESTMENT PROPERTIES

| | Note | Group 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Carrying amount at 1 August | | **3,189,300** | 3,081,300 |
| Transfer from properties under development | 15 | **93,257** | — |
| Net gain from a fair value adjustment | | **193,837** | 58,828 |
| Exchange realignment | | **197,206** | 49,172 |
| Carrying amount at 31 July | | **3,673,600** | 3,189,300 |

All investment properties are situated in Mainland China and are held under the following lease terms:

| | Group 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Long term leases | **122,600** | 9,300 |
| Medium term leases | **3,551,000** | 3,180,000 |
| | **3,673,600** | 3,189,300 |



At 31 July 2007, the investment properties were revalued by Knight Frank Petty Limited, independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31 July 2007, certain investment properties with an aggregate carrying value of HK$3,551,000,000 (2006: HK$3,180,000,000) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

## 17. PREPAID LAND LEASE PAYMENTS

| | Note | Group 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Carrying amount at 1 August | | **5,371** | 5,431 |
| Recognised during the year | 7 | **(156)** | (150) |
| Exchange realignment | | **316** | 90 |
| Carrying amount at 31 July | | **5,531** | 5,371 |

The Group's leasehold land is situated in Mainland China and is held under a medium term lease.

## 18. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising on the acquisition of subsidiaries, is as follows:

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Note | **HK$'000** | HK$'000 |
| Cost and carrying amount: | | | |
| At 1 August | | **4,561** | — |
| Acquisition of subsidiaries | 35(b) | **—** | 4,561 |
| At 31 July | | **4,561** | 4,561 |

## 19. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **144,270** | 144,270 |
| Due from subsidiaries | **5,406,425** | 4,347,543 |
| Due to subsidiaries | **(27,227)** | (27,227) |
| | **5,523,468** | 4,464,586 |

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$215,237,000 (2006: HK$182,643,000) due from a subsidiary which bears interest at LIBOR plus 3% per annum (2006: LIBOR plus 3% per annum). The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

# Notes to Financial Statements

31 July 2007

## 19. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries as at 31 July 2007 are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Assetop Asia Limited | British Virgin Islands/ Hong Kong | US$1 | — | 100 | Investment holding |
| Canvex Limited | Hong Kong | HK$2 | — | 100 | Property investment |
| Frank Light Development Limited *(note 35)* | Hong Kong | HK$19,999,999 | — | 100 | Investment holding |
| Gentle Code Limited | Hong Kong | HK$1 | — | 100 | Investment holding |
| Gentle Holdings Limited | Hong Kong | HK$1 | — | 100 | Investment holding |
| Goldthorpe Limited | British Virgin Islands/ Hong Kong | US$1 | — | 100 | Investment holding |
| Grand Wealth Limited | Hong Kong | HK$2 | — | 100 | Investment holding |
| Grosslink Investment Limited | Hong Kong | HK$2 | — | 77.5 | Investment holding |
| Guangzhou Gentle Code Real Estate Company Limited @ | Mainland China | US$19,560,000 | — | 100 | Property development and investment |
| Guangzhou Gentle Real Estate Company Limited @ | Mainland China | US$15,180,000 | — | 100 | Property development and investment |
| Guangzhou Grand Wealth Properties Ltd. ** | Mainland China | HK$138,000,000* | — | 100 | Property development and investment |
| Guangzhou Guang Bird Property Development Ltd. ** | Mainland China | US$22,160,000* | — | 100 | Property development and investment |
| Guangzhou Jadepress Real Estate Company Limited @ | Mainland China | US$12,600,000 | — | 100 | Property development and investment |
| Guangzhou Jieli Real Estate Development Co., Ltd. ** | Mainland China | HK$168,000,000* | — | 77.5 | Property investment |
| Guangzhou Honghui Real Estate Development Co., Ltd.** | Mainland China | RMB79,733,004* | — | 100 | Property development and investment |

# Notes to Financial Statements

31 July 2007

## 19. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share capital/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Jadepress Limited | Hong Kong | HK$1 | — | 100 | Investment holding |
| Lai Fung Company Limited | Hong Kong | HK$20 | 100 | — | Investment holding |
| Nicebird Company Limited | Hong Kong | HK$2 | — | 100 | Investment holding |
| Shanghai Hu Xin Real Estate Development Co., Ltd. # | Mainland China | US$6,000,000* | — | 95 | Property development and investment |
| Shanghai Li Xing Real Estate Development Co., Ltd. # | Mainland China | US$36,000,000* | — | 95 | Property investment |
| Sunlite Investment Limited | Hong Kong | HK$2 | — | 100 | Investment holding |
| Topsider International Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | — | Investment holding |
| Wide Angle Development Limited | Hong Kong | HK$2 | — | 100 | Investment holding |
| Shanghai HKP Property Management Limited # | Mainland China | US$150,000* | — | 100 | Property management |
| Shanghai Wa Yee Real Estate Development Co., Ltd. # | Mainland China | US$10,000,000* | 70 | 25 | Property development and investment |
| Good Strategy Limited | British Virgin Islands/ Hong Kong | US$1 | — | 100 | Property investment |
| Manful Concept Limited | Hong Kong | HK$2 | — | 100 | Investment holding |
| Zhongshan Bao Li Properties Development Co., Ltd. @ | Mainland China | HK$30,000,000* | — | 100 | Property development and investment |
| Silver Prospect Limited | Hong Kong | HK$1 | — | 100 | Investment holding |
| South Hill Limited | Hong Kong | HK$1 | — | 100 | Property investment |
| Maniway Hong Kong Limited | Hong Kong | HK$2 | — | 100 | Investment holding |

# Notes to Financial Statements

31 July 2007

## 19. INTERESTS IN SUBSIDIARIES (continued)

* *These subsidiaries have registered capital rather than issued share capital and are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

** *These subsidiaries are co-operative joint ventures of which the joint venture partners' profit sharing ratios and the distribution of net assets upon the expiration of the joint venture periods are not in proportion to their equity ratios but are as defined in the joint venture contracts.*

\# *Registered as equity joint ventures under the laws of Mainland China.*

@ *Registered as a wholly-foreign-owned enterprise under the laws of Mainland China.*

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

At 31 July 2007, shares in certain subsidiaries were pledged to secure banking facilities granted to the Group (note 26).

At 31 July 2007, certain subsidiaries have jointly and severally guaranteed the obligations of the Company under the Notes (as defined and disclosed in note 29).

## 20. INTERESTS IN ASSOCIATES



| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Share of net assets, other than goodwill | **149,439** | 42,257 |
| Due from associates | **981,884** | 814,631 |
| | **1,131,323** | 856,888 |
| Provision for impairment | **(73,341)** | (85,971) |
| | **1,057,982** | 770,917 |

Except for an amount of HK$12,403,000 (2006: HK$10,726,000) due from an associate which bears interest at 5.67% per annum (2006: 5.58% per annum), the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these advances approximate to their fair values.

Included in the above balance of "Share of net assets, other than goodwill" was the interest capitalised amounting to HK$72,095,000 (2006: HK$72,095,000) on borrowings previously obtained for the investments in associates engaged in property development.

## 20. INTERESTS IN ASSOCIATES (continued)

The provision for impairment in an associate arose from directors' assessment of the estimated realisable value of the underlying property development projects carried out by the associate with reference to the prevailing market conditions at the balance sheet date.

Particulars of the principal associates as at 31 July 2007 are as follows:

| Name | Place of incorporation/ registration and operations | Class of shares held | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Besto Investments Limited # | Hong Kong | Ordinary | 25 | Investment holding |
| Hankey Development Limited # | Hong Kong | Ordinary | 50 | Investment holding |
| Beautiwin Limited | Hong Kong | Ordinary | 50 | Investment holding |
| Shanghai Hankey Real Estate Development Co., Ltd. # | Mainland China | —* | 48.3 | Property investment |
| Shanghai Zhabei Plaza Real Estate Development Co., Ltd. # | Mainland China | —* | 49.5 | Property development and investment |
| Guangzhou Tianhe Baitao Culture and Entertainment Square Co., Ltd. # | Mainland China | —* | 25 | Property investment |
| Guangzhou Besto Real Estate Development Co., Ltd. # | Mainland China | —* | 25 | Property investment |
| Guangzhou New Wave Culture Plaza # | Mainland China | —* | 25 | Property development and investment |
| Guangzhou Beautiwin Real Estate Development Co., Ltd. # | Mainland China | —* | 50 | Property development and investment |

\# *The above associates are indirectly held by the Company and are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

* *These associates have registered capital rather than issued share capital.*

# Notes to Financial Statements

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## 20. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates, in aggregate, as extracted from their management accounts and financial statements:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Assets | **2,223,100** | 1,462,147 |
| Liabilities | **(2,532,373)** | (2,042,451) |
| Turnover | **30,772** | 27,461 |
| Profit | **164,542** | 17,495 |
| Contingent liabilities of associates | **—** | — # |

\# *At 31 July 2006, one of the associates had certain contingent liabilities in relation to the obligation to pay additional land costs for a piece of land. Such obligation was not recognised in the financial statements of such associate at the balance sheet date because the amount of this obligation could not be measured with sufficient reliability.*

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | **Group** | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Unlisted investments, at fair value | **—** | 13,464 |

At 31 July 2006, the fair value of unlisted available-for-sale investments was the estimated amount that the Group would receive or pay on the derecognition of investments at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the counterparties. The directors believed that the estimated fair value resulting from this valuation technique, which was recorded in the consolidated balance sheet, and the related changes in fair value, which were recorded in the consolidated reserve, were reasonable, and that they were the most appropriate values at the balance sheet date.

## 22. COMPLETED PROPERTIES FOR SALE

At 31 July 2006, certain completed properties for sale with an aggregate carrying value of HK$43,037,000 were pledged to a bank to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

# Notes to Financial Statements

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## 23. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Service apartment charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the Group, the settlement of which is in accordance with the respective agreements. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables of the Group are interest-free.

An aged analysis of the trade receivables at the balance sheet date, based on the invoice date, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables, net | | | | |
| Within one month | **25,940** | 9,834 | **—** | — |
| One to two months | **5,821** | 243 | **—** | — |
| Two to three months | **893** | 8,894 | **—** | — |
| Three to six months | **246** | — | **—** | — |
| Over six months | **—** | 4,851 | **—** | — |
| | **32,900** | 23,822 | **—** | — |
| Other receivables, prepayments and deposits | **99,419** | 38,311 | **12,923** | 263 |
| | **132,319** | 62,133 | **12,923** | 263 |
| Portion classified as current assets | **(106,415)** | (62,133) | **(12,923)** | (263) |
| Non-current portion | **25,904** | — | **—** | — |

The carrying amounts of debtors, deposits and prepayments approximate to their fair values at the balance sheet date.

# Notes to Financial Statements

31 July 2007

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED TIME DEPOSITS AND BANK BALANCES

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | Note | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | | **910,171** | 451,831 | **35,392** | 151,177 |
| Less: Pledged and restricted bank balances | | | | | |
| Pledged for bank facilities * | | **(4,025)** | (11,601) | **—** | — |
| Pledged for bank loans | 26 | **(25,839)** | (7,374) | **—** | — |
| Restricted bank balances ** | | **(240,186)** | (188,763) | **—** | — |
| Non-pledged cash and bank balances | | **640,121** | 244,093 | **35,392** | 151,177 |
| Time deposits | | **1,461,274** | 655,032 | **1,250,759** | 654,410 |
| Less: Pledged time deposits | | | | | |
| Pledged for bank loans | 26 | **(118,914)** | — | **—** | — |
| Pledged for bank facilities | | **(51,110)** | — | **—** | — |
| Non-pledged time deposits | | **1,291,250** | 655,032 | **1,250,759** | 654,410 |
| Cash and cash equivalents | | **1,931,371** | 899,125 | **1,286,151** | 805,587 |

* *The balances are pledged to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group.*

** *In accordance with relevant laws and regulations imposed by the government authorities concerned, proceeds from pre-sale of properties are required to be deposited into a designated bank account and restricted to be used in the relevant project construction. Such restriction will be uplifted upon the attainment of relevant ownership certificates issued by the authority. At 31 July 2007, the balance of such deposits amounted to HK$149,253,000 (2006: HK$188,763,000).*

*In accordance with relevant laws and regulations imposed by the government authorities concerned, estimated resettlement costs for the removal of existing residents on a site for development are required to be deposited into a designated bank account. Such deposits are restricted to be used as compensation to the existing residents and such restriction will be uplifted upon completion of the resettlement project. At 31 July 2007, the balance of such deposits amounted to HK$90,933,000 (2006: Nil).*

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED TIME DEPOSITS AND BANK BALANCES (continued)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$540,567,000 (2006: HK$285,340,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and pledged and restricted time deposits and bank balances approximate to their fair values.

## 25. CREDITORS AND ACCRUALS

An aged analysis of the trade payables at the balance sheet date, based on the invoice date, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 (Restated) | **HK$'000** | HK$'000 |
| Trade payables | | | | |
| Within one month | **12,966** | 5,719 | **—** | — |
| One to three months | **934** | 623 | **—** | — |
| Over three months | **5,328** | 75,514 | **—** | — |
| | **19,228** | 81,856 | **—** | — |
| Accruals and other creditors | **436,252** | 244,336 | **63,971** | 17,014 |
| Financial liability – the Put Option (Note) | **—** | — | **—** | — |
| Total | **455,480** | 326,192 | **63,971** | 17,014 |

Trade payables of the Group are interest-free and are settled pursuant to the terms of the relevant agreements. The carrying amounts of creditors and accruals approximate to their fair values at the balance sheet date.

# Notes to Financial Statements

31 July 2007

## 25. CREDITORS AND ACCRUALS (continued)

*Note:*

Hua Xiong Holdings Pte. Ltd. ("Hua Xiong") and the Company entered into a deed of put option (the "Put Option Deed") upon completion of the disposal of the Group's 50% equity interest in and shareholder's loan to Beautiwin Limited ("Beautiwin") in 2006, a then wholly-owned subsidiary of Welitron Profits Limited ("Welitron") (the "Transaction"). Pursuant to the Put Option Deed, Hua Xiong is entitled to exercise a put option (the "Put Option"), during the period commenced on the completion date of the Transaction (the "Completion") and ending on the date when Guangzhou Beautiwin Real Estate Development Co. Ltd. ("Guangzhou Beautiwin"), a subsidiary of Beautiwin, receives the land use right certificate (the "Land Use Right Certificate") in relation to the whole of a piece of land located at Niu Yan Gang, Heng Sha Village, Shi Jing Town, Bai Yun District, Guangzhou, Mainland China (the "Land"), to require Welitron to purchase from Hua Xiong the 50% equity interest in and all loans Beautiwin and/or Guangzhou Beautiwin (the "Beautiwin Group") owed to Hua Xiong subject to the occurrence of any of the following events:

(a) the termination of a land use rights grant contract dated 30 September 1997 entered into between Guangzhou State Land Bureau and Beautiwin in relation to the Land (the "Land Use Rights Grant Contract");

(b) the forfeiture of any amount paid by the Beautiwin Group to the Guangzhou State Land Bureau (or such equivalent authority) pursuant to the Land Use Rights Grant Contract; and/or

(c) any imposition of late payment penalties as a result of the failure by the Beautiwin Group to pay the land premium in accordance with the Land Use Rights Grant Contract.



The consideration payable by Welitron to Hua Xiong under the Put Option Deed in the event that Hua Xiong exercises the Put Option (the "Put Option Consideration") shall be the aggregate of:

(a) an amount equivalent to the consideration of the Transaction of RMB102,757,000 (approximately HK$98,575,000) (the "Consideration") together with interest accrued thereon at the prevailing People's Bank of China interest rate for Renminbi; and

(b) all outstanding amounts owed by the Beautiwin Group to Hua Xiong and/or its affiliates arising from the loans provided to the Beautiwin Group after the Completion together with interest accrued thereon at the relevant agreed contractual rate.

Having considered (i) the arrangement of the Put Option; (ii) the possibility and timing of the Put Option become exercisable by Hua Xiong; (iii) the uncertainty over the amount of the consideration payable by Welitron to Hua Xiong in the event that Hua Xiong exercises the Put Option, the Directors are of the opinion that the estimated fair value of the Put Option cannot be reliably measured. The determination of the estimated fair value of the Put Option depends on, in particular, the amount of loans that would be provided to the Beautiwin Group by Hua Xiong after the Completion and up to the date when Hua Xiong exercises the Put Option, the estimated fair value of the Put Option Consideration and the possibility and timing of occurrence of certain events (including when Beautiwin receives the Land Use Right Certificate).

When the fair values of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment; or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The variability in the range of the estimates for determining fair value of the Put Option is significant and cannot be reasonably assessed. Therefore, the Group stated the Put Option at cost of nil at the balance sheet date (2006: Nil).

## 26. INTEREST-BEARING BANK LOANS, SECURED

**Group**

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **HK$'000** | Effective interest rate (%) | Maturity | HK$'000 |
| Secured bank loans: | | | | | | |
| Current | **5.50 – 7.82** | **2008** | **894,265** | 5.75 – 6.24 | 2007 | 89,723 |
| Non-current | **5.50 – 7.02** | **2009 – 2016** | **123,343** | 5.75 – 7.47 | 2008 – 2016 | 753,859 |
| | | | **1,017,608** | | | 843,582 |
| Analysed into: | | | | | | |
| Within one year | | | **894,265** | | | 89,723 |
| In the second year | | | **103,359** | | | 733,840 |
| In the third to fifth year, inclusive | | | **9,633** | | | 6,993 |
| Beyond five years | | | **10,351** | | | 13,026 |
| | | | **1,017,608** | | | 843,582 |

All of the bank loans are floating rate instruments, and their carrying amounts approximate to their fair values. 

Bank loans of the Group at the balance sheet date are secured by:

(i) mortgages over certain leasehold building and service apartments of the Group, with carrying values of HK$44,526,000 (2006: HK$45,445,000) and HK$550,255,000 (2006: HK$554,582,000) (note 14) respectively at the balance sheet date;

(ii) mortgages over certain properties under development of the Group with an aggregate carrying value of HK$858,364,000 (2006: HK$475,970,000) (note 15) at the balance sheet date;

(iii) mortgages over certain investment properties of the Group with an aggregate carrying value of HK$3,551,000,000 (2006: HK$3,180,000,000) (note 16) at the balance sheet date;

(iv) mortgages over certain completed properties for sale of the Group with an aggregate carrying value of HK$43,037,000 (note 22) at 31 July 2006;

(v) charges over time deposits and bank balances of the Group of HK$118,914,000 (2006: Nil) (note 24) and HK$25,839,000 (2006: HK$7,374,000) (note 24) respectively at the balance sheet date;

(vi) charges over the entire share capital of certain subsidiaries attributable to the Group (note 19); and

(vii) certain corporate guarantees provided by the Company (note 37).

# Notes to Financial Statements

31 July 2007

## 27. PROMISSORY NOTE

| | Effective interest rate (%) | | Group and Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** **HK$'000** | 2006 HK$'000 |
| Issued to a substantial shareholder | **7.75** | 8.00 | **167,000** | 167,000 |

In the prior year, the Company issued a promissory note with a principal amount of HK$167,000,000 to Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company, in respect of the acquisition of the entire issued share capital of Assetop Asia Limited (note 35(b)). The promissory note is unsecured, bears interest at prevailing Hong Kong Dollar Prime Rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and is wholly repayable on 29 May 2010. The carrying amount of the promissory note approximates to its fair value.

## 28. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER

On 31 July 2007, the executor of Mr. Lim Por Yen's estate, at the request of the Group, confirmed to the Group that no demand for settlement of the advances would be made within one year from the balance sheet date. The advances are unsecured and interest-free.

The carrying amounts of the advances approximate to their fair values.



## 29. FIXED RATE SENIOR NOTES

On 4 April 2007, the Company issued US$200,000,000 (equivalent to approximately HK$1,560,000,000) 9.125% fixed rate senior notes (the "Notes"), which will mature on 4 April 2014 with bullet repayment. The Notes bear interest from 4 April 2007, payable semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 October 2007 (each, an "Interest Payment Date"). The Notes are listed on the Singapore Exchange Securities Trading Limited (the "Singapore Exchange").

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

## 29. FIXED RATE SENIOR NOTES (continued)

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, and the greater of (1) 1% of the principal amount of such Notes and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount of such Notes, plus all required remaining scheduled interest payments due on such Notes through 4 April 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the semi-annual equivalent yield in maturity of the comparable United States Treasury security, plus 100 basis points, over (B) the principal amount of such Notes on such redemption date. In addition, at any time, prior to 4 April 2010, the Company may redeem up to 35% of the principal amount of the Notes using the proceeds from certain equity offerings at a redemption price of 109.125% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

The early redemption option of the Notes is regarded as an embedded derivative not closely related to the host contract (the Notes). It shall be separately accounted for as a financial instrument at fair value through profit or loss. The directors consider that the fair value of the early redemption option is insignificant on initial recognition and at balance sheet date.

The Notes recognised in the balance sheets are calculated as follows:

| | Group and Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Face value of the Notes | **1,560,000** | — |
| Issue expenses | **(48,191)** | — |
| Fair value at date of issue | **1,511,809** | — |
| Amortisation of the Notes (note 6) | **1,622** | — |
| Carrying amount at 31 July | **1,513,431** | — |
| Fair value of the Notes at 31 July * | **1,484,925** | — |

* *The fair value is determined by reference to the closing price of the Notes quoted on the Singapore Exchange at that date.*

In connection with the Notes, the Company entered into the CCS (as defined in note 30) with financial institutions, which have effectively converted the Notes into fixed rate RMB-denominated loans. Taking into account the CCS, the effective interest rate of the Notes is 7.02% per annum. Details of the CCS are set out in note 30 to the financial statements.

# Notes to Financial Statements

31 July 2007

## 30. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group and Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Financial liabilities – Cross currency swap agreements (the "CCS") | **72,859** | — |

The carrying amounts of the CCS are the same as their fair values. The fair values of the CCS are the estimated amounts that the Company would receive or pay to terminate the CCS at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the swap counterparties.

**Cash flow hedges**

On 4 April 2007, the Company entered into the CCS with financial institutions with an aggregate notional amount of US$200,000,000 to hedge the currency risk arising from the Notes as detailed in note 29 to the financial statements.

Pursuant to the terms of the CCS, the Company receives interest payments semi-annually at a fixed rate of 9.125% per annum on the aggregate notional amount of US$200,000,000 during the period from 4 April 2007 to 4 April 2014 on each Interest Payment Date of the Notes (as defined in note 29), and makes interest payments semi-annually at a fixed rate of 6.45% per annum on the aggregate notional amount of RMB1,545,100,000 (being the RMB equivalent amount of US$200,000,000, translated at a contracted exchange rate of RMB7.7255 to US$1) during the period from 4 April 2007 to 4 April 2014 on each Interest Payment Date. On 4 April 2014, the Company receives the aggregate notional amount of US$200,000,000 and pays the aggregate notional amount of RMB1,545,100,000.

The terms of the CCS have been negotiated to match with the terms of the Notes, including the principal and notional amounts, the USD interest rate, the effective date, each interest payment date and the final maturity date. The cash flow hedges of the Notes has been assessed to be highly effective, and net losses of HK$41,780,000 (2006: Nil) on the cash flow hedges are included in the hedge reserve as follows:

| | Group and Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Total fair value losses included in the hedge reserve | **72,859** | — |
| Fair value losses transferred from the hedge reserve and recognised in income statement (note 7) | **(31,079)** | — |
| Net losses on cash flow hedges | **41,780** | — |

## 31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

**Group**

| | Depreciation allowance in excess of related depreciation | Fair value adjustments arising from acquisition of subsidiaries | Revaluation of properties | Losses available for offset against future taxable profits | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 August 2005 | 162,223 | — | 289,749 | (20,942) | 431,030 |
| Deferred tax charged/(credited) to the income statement during the year (note 10) | (12,383) | — | 19,940 | 20,942 | 28,499 |
| Acquisition of subsidiaries (note 35(b)) | — | 163,000 | — | — | 163,000 |
| Exchange realignment | 147 | 2,289 | 2,787 | — | 5,223 |
| At 31 July 2006 and 1 August 2006 | 149,987 | 165,289 | 312,476 | — | 627,752 |
| Deferred tax credited to the income statement during the year (note 10) | (27,836) | (27,352) | (28,450) | (2,908) | (86,546) |
| Acquisition of subsidiaries (note 35(a)) | — | 32,000 | — | — | 32,000 |
| Exchange realignment | 299 | 10,416 | 9,771 | — | 20,486 |
| **At 31 July 2007** | **122,450** | **180,353** | **293,797** | **(2,908)** | **593,692** |

At 31 July 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

The Company has no material unprovided deferred tax in respect of the year and as at the balance sheet date (2006: Nil).

# Notes to Financial Statements

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## 32. SHARE CAPITAL

**Shares**

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Authorised: | | |
| 12,000,000,000 (2006: 12,000,000,000) ordinary shares of HK$0.10 each | 1,200,000 | 1,200,000 |
| Issued and fully paid: | | |
| 8,047,956,478 (2006: 8,047,956,478) ordinary share of HK$0.10 each | 804,796 | 804,796 |

During the prior year, the movements in share capital are as follows:

(a) Pursuant to the subscription agreement dated 10 March 2006, 1,610,000,000 shares of HK$0.10 each were issued and allotted to CapitaLand China Holdings Pte. Ltd. on 16 June 2006 at a subscription price of HK$0.40 per share for a total cash consideration of HK$644,000,000.

(b) On 30 May 2006, the Company issued and allotted 565,000,000 shares of HK$0.10 each at market price of HK$0.40 per share amounting to HK$226,000,000 to LSG as part of the consideration for the acquisition of 100% equity interest in Assetop Asia Limited (note 35(b)).



A summary of the transactions during the current and prior years with reference to the above movements in the Company's issued share capital is as follows:

| | **Number of shares in issue** '000 | **Issued capital** HK$'000 | **Share premium account** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 August 2005 | 5,872,956 | 587,296 | 3,224,676 | 3,811,972 |
| Subscription of shares (note (a)) | 1,610,000 | 161,000 | 483,000 | 644,000 |
| Issue of shares for acquisition of subsidiaries (note (b)) | 565,000 | 56,500 | 169,500 | 226,000 |
| Share issue expenses | — | — | (508) | (508) |
| At 31 July 2006 and 31 July 2007 | 8,047,956 | 804,796 | 3,876,668 | 4,681,464 |

**Share options**

Details of the Company's share option scheme are included in note 33 to the financial statements.

### 33. SHARE OPTION SCHEME

On 21 August 2003, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the directors and any employees of the Group. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from that date.

The maximum number of share options permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as approved in accordance with the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit will be subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than eight years from the date of offer of the share options or the expiry date of the Scheme, whichever is earlier.



The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

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

# Notes to Financial Statements

31 July 2007

## 33. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

| Name or category of participants | Number of share options granted during the year and at 31 July 2007 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ (per share) |
|---|---|---|---|---|
| **Director** | | | | |
| Tam Kin Man, Kraven | 10,000,000 | 9/1/2007 | 1/1/2007 - 31/12/2007 | 0.45 |
| | 10,000,000 | 9/1/2007 | 1/1/2008 - 31/12/2008 | 0.55 |
| | 10,000,000 | 9/1/2007 | 1/1/2009 - 31/12/2009 | 0.65 |
| | 10,000,000 | 9/1/2007 | 1/1/2010 - 31/12/2010 | 0.75 |
| | 40,000,000 | | | |
| **Other employees (in aggregate)** | 2,500,000 | 9/1/2007 | 1/1/2007 - 31/12/2007 | 0.45 |
| | 2,500,000 | 9/1/2007 | 1/1/2008 - 31/12/2008 | 0.55 |
| | 5,000,000 | 9/1/2007 | 1/1/2009 - 31/12/2009 | 0.60 |
| | 5,000,000 | 9/1/2007 | 1/1/2010 - 31/12/2010 | 0.65 |
| | 5,000,000 | 9/1/2007 | 1/1/2010 - 31/12/2010 | 0.70 |
| | 2,500,000 | 9/1/2007 | 1/1/2008 - 31/12/2008 | 0.40 |
| | 2,500,000 | 9/1/2007 | 1/1/2009 - 31/12/2009 | 0.55 |
| | 25,000,000 | | | |
| Total | 65,000,000 | | | |

* *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

## 33. SHARE OPTION SCHEME (continued)

The closing price of the Company's share immediately before the date of grant was HK$0.35. The fair value of the share options granted during the year was HK$4,515,000 (2006: Nil), of which a share option expense of HK$1,842,000 (2006: Nil) (note 7) is recognised in the consolidated income statement during the year ended 31 July 2007.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the formula used for the year ended 31 July 2007:

| | |
|---|---|
| Dividend yield (%) | 0.303% |
| Expected volatility (%) | 52.97% |
| Risk-free interest rate (%) | 3.577% to 3.65% |
| Expected life of option (year) | 1 to 4 years |
| Weighted average share price (HK$) | HK$0.35 |

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

During the year, no options were exercised, cancelled or lapsed in accordance with the terms of the Share Option Scheme. At 31 July 2007, the total number of 65,000,000 shares options outstanding under the Share Option Scheme represented approximately 0.81% of the Company's shares in issue at that date.

# Notes to Financial Statements

31 July 2007

## 34. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 47 to 48 of the financial statements.

### (b) Company

| | Notes | Share premium account HK$'000 | Share option reserve HK$'000 | Hedge reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained earnings/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 August 2005 | | 3,224,676 | — | — | (9,558) | (126,654) | 3,088,464 |
| Issue of shares | 32 | 652,500 | — | — | — | — | 652,500 |
| Share issue expenses | 32 | (508) | — | — | — | — | (508) |
| Profit for the year | 11 | — | — | — | — | 541,170 | 541,170 |
| Proposed final 2006 dividends | 12 | — | — | — | — | (8,048) | (8,048) |
| At 31 July 2006 and 1 August 2006 | | 3,876,668 | — | — | (9,558) | 406,468 | 4,273,578 |
| Net losses on cash flow hedges | 30 | — | — | (41,780) | — | — | (41,780) |
| Loss for the year | 11 | — | — | — | — | (33,155) | (33,155) |
| Equity-settled share option arrangements | 33 | — | 1,842 | — | — | — | 1,842 |
| Proposed final 2007 dividends | 12 | — | — | — | — | (32,192) | (32,192) |
| **At 31 July 2007** | | **3,876,668** | **1,842** | **(41,780)** | **(9,558)** | **341,121** | **4,168,293** |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options expire or be forfeited.

The hedge reserve comprises the effective portion of the cumulative net gain or loss on the hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows in accordance with the accounting policy adopted for cash flow hedges.

# Notes to Financial Statements



## 35. BUSINESS COMBINATION

(a) During the year, the Group acquired a 100% equity interest in Frank Light Development Limited ("Frank Light") and the shareholders' loans owed by Frank Light with an aggregate amount of HK$216,936,000 for a total consideration of HK$292,300,000. Frank Light and its subsidiary, Guangzhou Honghui Real Estate Development Co., Ltd., (the "Frank Light Group") are engaged in the property development and investment business.

The fair values of the identifiable assets and liabilities of the Frank Light Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

| | Notes | **Fair value recognised on acquisition** HK$'000 | **Carrying amount immediately before the acquisition** HK$'000 |
|---|---|---|---|
| Equipment | 14 | 37 | 37 |
| Property under development | 15 | 348,400 | 232,775 |
| Cash and bank balances | | 979 | 979 |
| Other current liabilities, net | | (434) | (434) |
| Interest-bearing bank loans | | (21,810) | (21,810) |
| Deferred tax liability | 31 | (32,000) | — |
| | | 295,172 | 211,547 |
| Expenses incurred for the acquisition | | (2,872) | |
| | | 292,300 | |
| Satisfied by: | | | |
| Cash consideration paid | | 266,300 | |
| Cash consideration payable two months after the completion of underlying properties of the Frank Light Group | | 26,000 | |
| | | 292,300 | |

# Notes to Financial Statements

31 July 2007

### 35. BUSINESS COMBINATION (continued)

(a) An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

| | HK$'000 |
|---|---|
| Cash consideration paid | 266,300 |
| Expenses incurred for the acquisition | 2,872 |
| Cash and bank balances acquired | (979) |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 268,193 |

The underlying properties of the subsidiaries acquired were in the development stage and no income or expense was incurred during the year. Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would not be materially different from those disclosed for the year ended 31 July 2007.

(b) In the prior year, the Group acquired a 100% equity interest in Assetop Asia Limited and its subsidiaries (the "Assetop Group") from LSG (a substantial shareholder of the Company). The principal asset of the Assetop Group is a 95% interest in a property under development located at Zhabei District, Shanghai, Mainland China. The management has the intention to develop the property under development into a residential and commercial complex. The aggregate purchase consideration for the acquisition of HK$393,000,000 was in form of 565,000,000 new shares of the Company at market price of HK$0.40 per share amounting to HK$226,000,000 (note 32) and a promissory note amounting to HK$167,000,000 issued by the Company (note 27).

### 35. BUSINESS COMBINATION (continued)

(b) The fair values of the identifiable assets and liabilities of the Assetop Group as at the date of acquisition, which were equal to the corresponding carrying amounts immediately before the acquisition, were as follows:

| | Notes | Fair values recognised on acquisition and carrying amounts immediately before the acquisition HK$'000 |
|---|---|---|
| Property, plant and equipment | 14 | 78 |
| Property under development | 15 | 577,000 |
| Prepayment and deposits | | 88 |
| Cash and bank balances | | 833 |
| Accruals and other payables | | (435) |
| Deferred tax liability | 31 | (163,000) |
| Minority interests | | (21,963) |
| | | 392,601 |
| Expenses incurred for the acquisition | | (4,162) |
| Goodwill on acquisition | 18 | 4,561 |
| | | 393,000 |
| Satisfied by: | | |
| Promissory note | 27 | 167,000 |
| Issue of shares | 32 | 226,000 |
| | | 393,000 |

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

| | HK$'000 |
|---|---|
| Cash and bank balances acquired and inflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 833 |

The subsidiaries acquired were in the development stage and no income or expense was incurred during the prior year. Had the combination taken place at the beginning of the prior year, the revenue from continuing operations of the Group and the profit of the Group for the prior year would not be materially different from those disclosed for that year.

# Notes to Financial Statements

31 July 2007

## 36. DISPOSAL OF INTERESTS IN SUBSIDIARIES

| | Notes | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Property under development | 15 | — | 144,655 |
| Accruals | | — | (394) |
| | | — | 144,261 |
| Expenses incurred for the disposal | | — | 1,931 |
| Accrual of tax indemnity relating to land cost | | — | 11,538 |
| Exchange fluctuation reserve realised | | — | (1,951) |
| Gain on disposal of interests in subsidiaries | 5 | — | 14,926 |
| | | — | 170,705 |
| Satisfied by: | | | |
| Cash | | — | 98,575 |
| Interests in an associate | | — | 72,130 |
| | | — | 170,705 |



An analysis of the inflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries is as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Cash consideration and inflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries | — | 98,575 |

The results of the subsidiaries disposed of in the year ended 31 July 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the prior year.

## 37. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | **1,156,398** | 1,020,834 |

At 31 July 2007, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$892,169,000 (2006: HK$808,896,000).

(b) (i) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant properties in case the end-buyers default in repayment of the mortgage loans. The Group's obligation has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers.

(ii) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of Regents Park Phase I. Pursuant to terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with accrued interest owed by the defaulted end-buyers. The Group's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the Property Ownership Certificates for the relevant properties are issued or the end-buyers have fully repaid the mortgage loans, whichever is the earlier.

(iii) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of Eastern Place Phase I, II and III. Pursuant to terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with accrued interest owed by the defaulted end-buyers. Such obligation will be relinquished when the end-buyers have fully repaid the mortgage loans.

# Notes to Financial Statements

31 July 2007

## 37. CONTINGENT LIABILITIES (continued)

(b) (iv) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of Eastern Place Phase IV. Pursuant to terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with accrued interest owed by the defaulted end-buyers. Such obligation will also be relinquished when the Property Ownership Certificates for the relevant properties are issued or the end-buyers have fully repaid the mortgage loans, whichever is the earlier.

It is not practical to determine the outstanding amount of the contingent liabilities of the Group and the Company in respect of the above guarantees at the balance sheet date.

## 38. OPERATING LEASE ARRANGEMENTS

**(a) As lessor**

The Group leases its properties under operating lease arrangements, with leases negotiated for terms ranging from one month to twenty years (2006: from one month to fifteen years). The terms of the leases generally require the tenants to pay security deposits.

At 31 July 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:



| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Within one year | **120,233** | 125,149 |
| In the second to fifth years, inclusive | **149,837** | 168,381 |
| After five years | **43,184** | 44,503 |
| | **313,254** | 338,033 |

# Notes to Financial Statements

31 July 2007

## 38. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements, with leases negotiated for terms of two years (2006: two years).

At 31 July 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Within one year | 260 | 625 |
| In the second to fifth years, inclusive | — | 260 |
| | 260 | 885 |

## 39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| Land lease payments, resettlement, compensation, construction costs and others | **598,899** | 268,375 |

In addition, at 31 July 2007, the Group had commitment in respect of capital injection to an associate amounting to HK$36,161,000 (2006: Nil).

At the balance sheet date, the Company had no significant commitments.

## 40. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by certain assets of the Group, are included in note 26 to the financial statements.

# Notes to Financial Statements

31 July 2007

## 41. RELATED PARTY TRANSACTIONS

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

### (a) Transactions with related parties

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Notes | **HK$'000** | HK$'000 |
| Interest income from an associate | (i) | **674** | 150 |
| Advertising fees paid to related companies | (ii) | **(2,099)** | (12,442) |
| Interest on the promissory note paid to a substantial shareholder | (iii) | **(13,053)** | (2,306) |

*Notes:*

(i) Interest is charged on an advance made to an associate at 5.58% to 5.67% per annum (2006: 5.58% per annum).

(ii) The related companies are subsidiaries of eSun Holdings Limited ("eSun"). Certain directors of the Company are also directors and key management personnel of eSun.



The terms of the advertising fees were determined based on the contracts entered into between the Group and the related companies.

(iii) Interest is charged on a promissory note issued to LSG, a substantial shareholder of the Company, at the prevailing Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong (note 27).

### (b) Other transactions with related parties

(i) In the prior year, the Group acquired a 100% equity interest in Assetop Asia Limited, a subsidiary of the Company, from LSG. Further details are set out in note 35(b) to the financial statements.

(ii) The terms of the promissory note payable to LSG is detailed in note 27 to the financial statements.

### (c) Outstanding balances with related parties

Details of advances from a substantial shareholder of the Group are included in note 28 to the financial statements.

## 41. RELATED PARTY TRANSACTIONS (continued)

### (d) Compensation of key management personnel of the Group

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Short term employee benefits | **10,223** | 11,034 |
| Post-employment benefits | **61** | 91 |
| Share-based payments | **1,159** | — |
| Total compensation paid to key management personnel | **11,443** | 11,125 |

Further details of directors' emoluments are included in note 8 to the financial statements.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, promissory notes, fixed rate senior notes, cash and bank balances and short-term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risks, liquidity risk, credit risk and price risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. During the year, the Group has entered into cross currency swap agreements in relation to the fixed rate senior notes. The purpose is to manage the currency risks arising from the Group's operations and its source of finance. The Group does not hold or issue derivative financial instruments for trading purposes.



The directors review and agree policies for managing each of the financial risks and they are summarised as follows:

### (i) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"), United States Dollars ("USD") and Hong Kong Dollars ("HKD"). The Group is exposed to foreign currency risk arising from the exposure of HKD against USD and RMB, respectively. Considering that the exchange rate between HKD and USD is pegged, the Group believes the corresponding exposure to foreign currency risk is nominal.

In relation to the fixed rate senior notes issued during the year, the Group has entered into cross currency swap agreements ("CCS") to convert the USD-denominated fixed rate senior notes into RMB-denominated fixed rate loans, details of which are set out in notes 29 and 30 to the financial statements. The arrangement under the CCS exposes the Group to foreign currency risk against RMB in relation to the senior notes. However, in the light of the fact that the Group's assets are principally located in Mainland China and the revenues are mainly denominated in RMB, the Group has net assets that has a net currency exposure to RMB. The Group is taking the view that RMB will continue to appreciate against HKD in the foreseeable future and such a net exposure to RMB will benefit the Group's financial position as a whole. At present, other than aforementioned, the Group does not intend to seek to hedge its exposure to foreign currency fluctuations. However, the Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

# Notes to Financial Statements

31 July 2007

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (ii) Cash flow and fair value interest rate risks

As the Group has some interest-bearing assets, the Group's income and operating cash flows will be affected by the changes of market interest rates.

The Group's interest rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations. However, the Group will constantly review the economic situation and its interest rate risk profile, and will consider appropriate hedging measures in future as may be necessary.

### (iii) Liquidity risk

The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

### (iv) Credit risk

The Group maintains various credit policies for different business operations as described in note 23. In addition, trade debtors balances are being closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.



The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### (v) Price risk

Price risk arises from the implementation of macro-economic policies of Central and Municipal governments and the environment and development of property market in Mainland China, respectively. The Group closely monitors the property market conditions and takes appropriate response if necessary.

## 43. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 29 October 2007, Nicetronic Investments Limited ("Nicetronic"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Pilkington Investments Limited (the "Vendor"), an independent third party, whereby Nicetronic agreed to purchase the remaining 50% of the issued share capital of and the entire shareholder's loan advanced to Hankey Development Limited ("Hankey") from the Vendor at a consideration of HK$424,000,000 (the "Acquisition"). Hankey indirectly holds 96.6% and 99% interest in Zhabei Plaza I and Zhabei Plaza II, respectively, located at Tian Mu Road West in the Zhabei District of Shanghai.

Nicetronic is currently holding 50% of the issued share capital of Hankey. Upon completion of the Acquisition, Hankey will become an indirect wholly-owned subsidiary of the Company. The Acquisition is scheduled to be completed on 25 January 2008. Further details of the Acquisition are disclosed in the Company's announcement dated 30 October 2007.

## 44. COMPARATIVE AMOUNTS

In prior years, land appreciation tax arisen from the sale of properties ("LAT") was recognised as direct costs and included in the Group's "Cost of sales" as shown on the face of the consolidated income statement, and the relevant LAT payable was included in the Group's "Creditors and accruals" as shown on the face of the consolidated balance sheet.

During the year, the directors considered it a more appropriate presentation, after a reassessment of the nature of LAT and a study of the market practices, to include LAT in "Tax" on the face of the consolidated income statement, and to include the relevant LAT payable in "Tax payable" on the face of the consolidated balance sheet. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### (a) Effect on the consolidated balance sheet at 31 July

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Decrease in creditors and accruals | **(156,319)** | (78,814) |
| Increase in tax payable | **156,319** | 78,814 |
| | **—** | — |

### (b) Effect on the consolidated income statement for the year ended 31 July

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Decrease in cost of sales | **(71,693)** | (66,064) |
| Increase in tax (note 10) | **71,693** | 66,064 |
| | **—** | — |

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 November 2007.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 21 December 2007 at 10:15 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 31 July 2007;

2. To declare a final dividend;

3. To re-elect retiring directors and to fix the directors' remuneration;

4. To appoint auditors and to authorise the directors to fix their remuneration;

5. As special business, 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 share 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 of Hong Kong 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) of this Resolution shall not exceed 10% 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

(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 Articles of Association of the Company to be held."

(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 powers 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 powers 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 upon the exercise of rights of subscription or conversion under the terms of any warrants or the convertible bonds and the convertible note of the Company; or (iii) an issue of shares of the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue 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 same meaning assigned to it under paragraph (c) of the Ordinary Resolution No. 5(A) in the Notice convening this Meeting; and

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

# Notice of Annual General Meeting

(C) "**THAT** subject to the passing of the Ordinary Resolutions No. 5(A) and 5(B) in the Notice convening this 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 extended by addition thereto of an amount representing the aggregate nominal amount of shares in the share 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 nominal amount of the issued share capital of the Company as at the date of this Resolution."

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

Hong Kong, 9 November 2007

*Notes:*

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a Member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Registrars in Hong Kong, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting (as the case may be). 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 of its adjourned meeting should they so wish.

3. The Register of Members of the Company will be closed from 18 December 2007 to 21 December 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queens' Road East, Hong Kong for registration no later than 4:00 p.m. on 17 December 2007.

4. Concerning item 3 of this Notice, pursuant to Article 99 of the Company's Articles of Association, Mr. Cheung Sum, Sam, Ms. Leung Churk Yin, Jeanny and Mr. Cheng Shin How will retire at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election. Pursuant to Article 116 of the Company's Articles of Association, Mr. Lam Kin Hong, Matthew and Mr. Lam Bing Kwan will retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election. Details of the above Directors are set out in the "Biographical Details of Directors and Senior Management" section of the Annual Report 2006-2007 of the Company.

5. A circular containing details regarding Ordinary Resolutions No. 5(A) to 5(C) will be sent to Members together with the Company's Annual Report 2006-2007.