

Notes to the Accounts

31st July, 2000

15. INVESTMENT PROPERTIES

	Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year, at valuation	2,956,000	2,754,000
Additions	9,764	—
Transfer from completed properties developed for sale	24,300	—
Arising from acquisition of a subsidiary	—	475,000
Deficits on revaluation	<u>(18,004)</u>	<u>(273,000)</u>
At end of year, at valuation	<u>2,972,060</u>	<u>2,956,000</u>

At 31st July, 2000, the investment properties were revalued by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis.

The investment properties are situated in the PRC and are held under medium term leases.

At 31st July, 2000, certain investment properties with carrying value amounting to approximately HK\$1,369,243,000 (1999: HK\$382,201,000) have been pledged to banks to secure banking facilities granted to the Group.

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16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2000 HK\$'000	1999 HK\$'000
Properties under development held for investment potential, at valuation:		
At beginning of year	2,921,454	2,855,400
Interest capitalised, net	23,647	21,025
Other additions	46,510	94,445
Reclassified to properties under development held for other than investment potential, at cost	(131,449)	—
Release of revaluation reserve upon reclassification	(178,075)	—
Deficits on revaluation	(110,836)	(55,340)
Exchange realignments	5,629	5,924
	<u>2,576,880</u>	<u>2,921,454</u>
At end of year		
Properties under development held for other than investment potential, at cost:		
At beginning of year	713,337	672,997
Interest capitalised, net	1,404	6,149
Other additions	128	32,563
Transfer to completed properties developed for sale	(134,083)	—
Reclassified from properties under development held for investment potential, at cost	131,449	—
Exchange realignments	2,648	1,628
	<u>714,883</u>	<u>713,337</u>
At end of year		
Provisions for diminution in values	(3,982)	(9,527)
	<u>710,901</u>	<u>703,810</u>
Total balance at end of year	<u>3,287,781</u>	<u>3,625,264</u>

At 31st July, 2000, properties under development held for investment potential were revalued by Chesterton Petty Limited, independent chartered surveyors, on an open market value basis.

Properties under development held for other than investment potential which are carried at net realisable value and included in the above balance amounting to approximately HK\$579,542,000 (1999: HK\$703,810,000).

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16. PROPERTIES UNDER DEVELOPMENT (continued)

The analysis by lease term of the carrying value of the properties under development held for investment potential and held for other than investment potential is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Properties under development held for investment potential, at valuation:		
Leases of over 50 years	544,000	1,729,827
Leases of between 10 to 50 years	<u>2,032,880</u>	<u>1,191,627</u>
	<u>2,576,880</u>	<u>2,921,454</u>
Properties under development held for other than investment potential, at cost:		
Leases of over 50 years	603,719	703,810
Leases of between 10 to 50 years	<u>107,182</u>	<u>—</u>
	<u>710,901</u>	<u>703,810</u>
	<u>3,287,781</u>	<u>3,625,264</u>

All properties under development are situated in the PRC.

At 31st July, 2000, certain properties under development with carrying value amounting to approximately HK\$484,290,000 (1999: HK\$126,472,000) have been pledged to banks to secure banking facilities granted to the Group.

In connection with the spin off of the Company, the Company entered into an agreement with LSD on 12th November, 1997 which stated, inter alia, that for any of the Property Interests valued in the Valuation (as defined in note 11), if, within two years of the Company's Listing date, the land use rights certificate of these Property Interests or the business license required to set up a company for the purpose of developing these Property Interests have not been obtained, the Company, within six months after the second anniversary of the Listing date, is entitled to require LSD to buy back all the Company's direct or indirect interests in these Property Interests. No Property Interests had been brought back by LSD during the aforesaid period and the above terms have expired during the year.

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17. SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	144,272	144,272
Amounts due from subsidiaries	3,009,310	2,917,217
	3,153,582	3,061,489

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

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Class of shares held	Attributable interest to the Company				Principal activities
				Direct		Indirect		
				2000 %	1999 %	2000 %	1999 %	
Beautiwin Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Goldthorpe Limited	British Virgin Islands	US\$1	Ordinary	—	—	100	100	Investment holding
Grace Snow Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Grand Wealth Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd.	The PRC	RMB100,000,000	—*	—	—	100**	100**	Property development and investment
Guangzhou Grand Wealth Properties Limited	The PRC	HK\$138,000,000	—*	—	—	100**	100**	Property development and investment
Guangzhou Gongbird Property Development Ltd.	The PRC	US\$22,160,000	—*	—	—	100**	100**	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd.	The PRC	HK\$168,000,000	—*	—	—	100**	100**	Property development and investment
Lai Fung Company Limited	Hong Kong	HK\$20 HK\$20	Ordinary Deferred	100	100	—	—	Investment holding
Lai Fung Overseas Finance Limited	Cayman Islands	HK\$0.2	Ordinary	100	100	—	—	Bond issue
Nicebird Company Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding

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17. SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Issued/ registered capital	Class of shares held	Attributable interest to the Company				Principal activities
				Direct		Indirect		
				2000 %	1999 %	2000 %	1999 %	
Shanghai Li Xing Real Estate Development Co., Ltd. ("Li Xing")	The PRC	US\$36,000,000	—*	—	—	90	60	Property development and investment
Sunlite Investment Limited	Hong Kong	HK\$2	Ordinary	—	—	100	92	Investment holding
Wealthy Grow Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Creat Master Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Topsider International Limited	British Virgin Islands	US\$1	Ordinary	100	100	—	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK\$2	Ordinary	—	—	100	100	Investment holding
Shanghai HKP Property Management Co., Ltd.	The PRC	US\$150,000	—*	—	—	95	65	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.	The PRC	US\$10,000,000	—*	70	70	25	25	Property development and investment
Good Strategy Limited	British Virgin Islands	US\$1	Ordinary	—	—	100	100	Property investment

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

** These subsidiaries are co-operative joint ventures of which the 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.

At 31st July, 2000, the shares in certain subsidiaries are pledged to secure bank loans facilities granted to the Company.

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

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18. ASSOCIATED COMPANIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets other than goodwill	39,539	76,922
Unamortised goodwill on acquisition	<u>38,149</u>	<u>39,305</u>
	77,688	116,227
Amounts due from associated companies	<u>594,592</u>	<u>567,188</u>
	<u>672,280</u>	<u>683,415</u>

Except for an amount of HK\$382,425,000 (1999: HK\$382,192,000) due from an associated company which bears interest at Hong Kong dollar prime rate plus 2% per annum, the amounts due from associated companies are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal associated companies are as follows:

Name of company	Place of incorporation/ registration	Class of shares held	Attributable Interest to the Company		Principal activities
			2000 %	1999 %	
Besto Investments Limited	Hong Kong	Ordinary	25	25	Investment holding
Hankey Development Limited	Hong Kong	Ordinary	50	50	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd.	The PRC	—*	48.3	48.3	Property development
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.	The PRC	—*	49.5	49.5	Property development
Guangzhou Tianhe Baito Culture & Entertainment Square Co., Ltd.	The PRC	—*	25	25	Property development
Guangzhou Besto Real Estate Development Co., Ltd.	The PRC	—*	25	25	Property development
Guangzhou New Wave Culture Plaza	The PRC	—*	25	25	Property development

* These associated companies have registered capital rather than issued share capital.

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18. ASSOCIATED COMPANIES (continued)

The above table lists the associated companies of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group at the balance sheet date. To give details of other associated companies would, in the opinion of the directors, result in particulars of excessive length.

Included in the balance of "Share of net assets other than goodwill" is interest capitalised of approximately HK\$69,656,000 (1999: HK\$64,559,000) on borrowings for investments in associated companies engaged in property development.

19. JOINTLY CONTROLLED ENTITIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	58,423	145,333
Amounts due (to)/from jointly controlled entities	(8,296)	43,239
	<u>50,127</u>	<u>188,572</u>

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

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Details of the jointly controlled entities are as follows:

Name of company	Business structure	Place of registration	Registered capital	Attributable interest to the Company		Principal activities
				2000 %	1999 %	
Zhong Shan Li Shan Properties Development Limited	Corporate	The PRC	RMB75,000,000	50	50	Property development
Qingyuan Grace Snow Properties Ltd.	Corporate	The PRC	US\$36,000,000	72	72	Property development

Included in the balance of "Share of net assets of jointly controlled entities" is interest capitalised of approximately HK\$18,503,000. (1999: HK\$18,503,000) on borrowings for investments in jointly controlled entities engaged in property development.

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20. CASH AND BANK BALANCES

Included in the balance is an amount of approximately HK\$110,521,000 (1999: HK\$97,165,000) which is denominated in Renminbi.

21. COMPLETED PROPERTIES DEVELOPED FOR SALE

Included in completed properties developed for sale were an amount HK\$133,553,000 (1999: HK\$12,078,000) which are carried at net realisable value.

At 31st July, 2000, certain completed properties developed for sale with carrying value amounting to approximately HK\$124,894,000 (1999: HK\$Nil) have been pledged to bank to secure banking facilities granted to the Group.

22. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms of the Group range from 30 to 180 days. The ageing analysis of debtor is stated as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amount not yet due	6,743	3,617
Overdue by 30 days	3,514	1,885
Overdue by 60 days	2,663	1,428
Overdue by 90 days	5,004	2,684
Overdue by more than 90 days	<u>28,849</u>	<u>15,473</u>
Total	46,773	25,087
Deposits and prepayments	<u>20,533</u>	<u>24,485</u>
	<u>67,306</u>	<u>49,572</u>

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23. CREDITORS, ACCRUALS AND PROVISIONS

The ageing analysis of creditors is stated as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Overdue by 30 days	116,599	114,980
Overdue by more than 180 days	93,003	73,491
Total	209,602	188,471
Accruals and provisions	177,538	180,196
	387,140	368,667

24. DEFERRED TAXATION

At the balance sheet date, the Group's unprovided deferred tax liabilities arising from the revaluation of investment properties and properties under development amounted to HK\$252,544,000 (1999: HK\$255,410,000) and HK\$818,589,000 (1999: HK\$592,942,000) in respect of LAT and income tax, respectively. In the opinion of the directors, the deferred tax liabilities are not expected to crystallise in the foreseeable future since the Group has no intention to dispose of these revalued properties.

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Indemnities on certain tax liabilities arising from the disposal of the Group's properties under development, completed properties developed for sale and other properties were given by LSD. Details of the indemnities are included in note 11.

25. SHARE CAPITAL

	Number of shares 2000 '000	Nominal value 2000 HK\$'000	Number of shares 1999 '000	Nominal value 1999 HK\$'000
Authorised:				
Ordinary share of HK\$0.10 each	7,000,000	700,000	7,000,000	700,000
Issued and fully paid:				
Ordinary share of HK\$0.10 each	1,047,114	104,711	1,044,474	104,447

During the year, 2,639,795 ordinary shares of HK\$0.10 each were allotted and issued at a subscription price of HK\$2.94 per share upon the conversion of the Bonds (as defined in note 28) with a principal amount of US\$1,000,000 (approximately HK\$7,761,000) by certain bondholders.

These shares rank pari passu in all respects with the existing ordinary shares of the Company.

Notes to the Accounts

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26. RESERVES

Group

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Properties under development held for investment potential revaluation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st August, 1998	2,484,703	6,378	644,799	1,962,135	10,173	166,006	5,274,194
Capital reserve arising on acquisition of a subsidiary	—	—	—	—	6,279	—	6,279
Goodwill arising on acquisition of additional interest in a subsidiary	—	—	—	—	—	(17,399)	(17,399)
Exchange realignments:							
subsidiaries	—	7,633	—	—	—	—	7,633
associated companies	—	301	—	—	—	—	301
jointly controlled entities	—	383	—	—	—	—	383
Deficits on revaluation	—	—	(163,800)	(55,340)	—	—	(219,140)
Share of revaluation deficits in associated companies	—	—	—	(35,192)	—	—	(35,192)
Profit for the year retained	—	—	—	—	—	10,828	10,828
At 31st July, 1999	2,484,703	14,695	480,999	1,871,603	16,452	159,435	5,027,887
Reserves retained by:							
Company and subsidiaries	2,484,703	11,798	480,999	1,869,803	16,452	165,726	5,029,481
Associated companies	—	5,223	—	1,800	—	(5,581)	1,442
Jointly controlled entities	—	(2,326)	—	—	—	(710)	(3,036)
At 31st July, 1999	2,484,703	14,695	480,999	1,871,603	16,452	159,435	5,027,887

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26. RESERVES (continued)

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Properties under development held for investment potential revaluation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st August, 1999	2,484,703	14,695	480,999	1,871,603	16,452	159,435	5,027,887
Share premium arising on conversion of convertible guaranteed bonds	7,497	—	—	—	—	—	7,497
Capital reserve arising on acquisition of additional interests in subsidiaries	—	—	—	—	164,840	—	164,840
Exchange realignments:							
subsidiaries	—	9,226	—	—	—	—	9,226
associated companies	—	1,362	—	—	—	—	1,362
jointly controlled entities	—	520	—	—	—	—	520
Release of revaluation reserve upon reclassification of properties under development from held for investment potential to other than investment potential	—	—	—	(178,075)	—	—	(178,075)
Deficits on revaluation	—	—	(18,004)	(110,836)	—	—	(128,840)
Share of revaluation deficits in associated companies	—	—	—	(1,800)	—	—	(1,800)
Profit for the year retained	—	—	—	—	—	11,540	11,540
At 31st July, 2000	2,492,200	25,803	462,995	1,580,892	181,292	170,975	4,914,157
Reserves retained by:							
Company and subsidiaries	2,492,200	21,024	462,995	1,580,892	181,292	256,098	4,994,501
Associated companies	—	6,585	—	—	—	(47,623)	(41,038)
Jointly controlled entities	—	(1,806)	—	—	—	(37,500)	(39,306)
At 31st July, 2000	2,492,200	25,803	462,995	1,580,892	181,292	170,975	4,914,157

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26. RESERVES (continued)

Company

	Share premium HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st August, 1998	2,484,703	258	2,484,961
Loss for the year	—	(10,053)	(10,053)
At 31st July, 1999	2,484,703	(9,795)	2,474,908
Share premium arising on conversion of convertible guaranteed bonds	7,497	—	7,497
Loss for the year	—	(57,902)	(57,902)
At 31st July, 2000	2,492,200	(67,697)	2,424,503

27. LONG-TERM BANK LOANS, SECURED

	Group	
	2000 HK\$'000	1999 HK\$'000
At 31st July, 2000, the Group's long-term bank loans were wholly repayable within five years and can be analysed as follows:		
Repayable in the second year	47,112	—
Repayable in the third to fifth years	50,000	—
	97,112	—
	Company	
	2000 HK\$'000	1999 HK\$'000
Secured long-term bank loan repayable in the third to fifth years	50,000	—

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28. CONVERTIBLE GUARANTEED BONDS

	Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year	937,206	1,027,881
Converted during the year	(7,761)	—
Repurchased and cancelled during the year	—	(90,675)
At end of year	<u>929,445</u>	<u>937,206</u>

On 5th January, 1994, Lai Fung Overseas Finance Limited (“LFO”) issued US\$150,000,000 (HK\$1,158,465,000) convertible guaranteed bonds (the “Bonds”). The Bonds are unconditionally guaranteed by the Company.

The Bonds bear interest at the rate of 5.75% per annum payable in arrears on 5th January each year.

Unless previously redeemed or purchased and cancelled, the Bonds are convertible into fully paid ordinary shares of the Company at the option of the holders on and after the date falling three calendar months after 28th November, 1997 (the “Listing date”) up to the close of business on the date seven days prior to the third anniversary of the Listing date. Upon conversion, the Bonds are convertible into a number of shares determined by dividing the principal amount of such Bonds by HK\$2.94, being 105% of the initial public offering price of the shares of the Company.

On the third anniversary of the Listing date, LFO may elect to redeem the outstanding Bonds in cash at their principal amount or to mandatorily convert the outstanding Bonds into shares of the Company at a conversion price that is equal to the average closing price of the shares over a period of thirty consecutive dealing days prior to such date.

Subsequent to the Listing date, the Bonds may also be redeemed at their principal amount at any time on the occurrence of any of the events of default as defined in the Bond document. LFO may also elect to redeem the outstanding Bonds, at any time in whole but not in part, in the event of certain changes relating to the Cayman Islands or Hong Kong taxation at their principal amount multiplied by 103%.

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29. CONVERTIBLE NOTE

On 11th May, 1999, the Company entered into a conditional subscription agreement (the "Note Agreement") with Sunny Group Investment Limited ("Sunny Group"), a wholly-owned subsidiary of Sun Chung Estate Company, Limited, which in turn is wholly-owned by the Bank of China, whereby the Company would issue a HK\$600 million convertible note (the "Convertible Note") to Sunny Group. The transaction was approved by the shareholders of the Company at the extraordinary general meeting held on 22nd June, 1999. The Convertible Note was issued on 2nd July, 1999.

The Convertible Note was issued at 100% of its principal amount and bears interest at the rate of 5% per annum payable quarterly in arrears on 2nd January, 2nd April, 2nd July and 2nd October of each year.

Pursuant to the Note Agreement, unless previously redeemed, the Convertible Note is convertible, in whole or in part, into fully paid ordinary shares of HK\$0.10 each of the Company at a conversion price of HK\$0.65 per share, (the "Conversion Price"), at any time from 1st December, 2000 to 2nd July, 2002, being the third anniversary of the date of the issue of the Convertible Note. The Conversion Price is subject to certain adjustments as defined in the Note Agreement.

Unless previously redeemed or converted, the Convertible Note will be redeemed at 110% of the principal amount plus accrued interest on 2nd July, 2002. The Convertible Note may also be redeemed at any time upon the occurrence of any of the events as defined in the Note Agreement at 110% of the principal amount plus accrued interest up to and including the date of repayment.