Notes to Financial Statements

31st July, 2003

1. CORPORATE INFORMATION

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

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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 36 and 37 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

Notes to Financial Statements

31st July, 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The reclassifications resulting from the change in the presentation are that taxes paid are now included in cash flows from operating activities, interest received is now included in cash flows from investing activities and interest paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

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

Subsidiaries

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

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

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies

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

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

A joint venture company is treated as:

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

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

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

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

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

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, less any impairment losses.

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.

Goodwill

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

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

SSAP 30 "Business combinations" was adopted as at 1st August, 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1st August, 2001 is treated according to the SSAP 30 goodwill accounting policy above.

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

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

Negative goodwill

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

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets for a period of 40 years. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

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

SSAP 30 "Business combinations" was adopted as at 1st August, 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1st August, 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

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

Long term investments

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

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

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

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

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

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

Fixed assets and depreciation

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

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

Leasehold land and buildings	Over the lease terms
Leasehold improvements	20%
Furniture, fixtures and equipment	18% — 20%
Motor vehicles	18% — 25%
Computers	18% — 25%

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Properties under development

(a) Properties under development held for investment potential are stated at their open market values on the basis of annual professional valuations.

Changes in the values of such properties under development which have been revalued are dealt with as movements in the revaluation reserve of properties under development held for investment potential. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On completion, the properties are transferred to investment properties.

On disposal of a property under development which has been revalued, the relevant portion of the revaluation reserve of properties under development held for investment potential realised in respect of previous valuations is released to the profit and loss account.

(b) Properties under development held for purposes other than investment potential are stated at cost less any impairment losses.

Where the pre-sale of properties has commenced, properties under development held for purposes other than investment potential are stated at cost plus attributable profits (recognised on the basis set out under the heading "Revenue recognition" in this note) less the attributable sale instalments received and receivable.

Cost of properties in the course of development comprises land cost, fees for land use rights, construction costs, financing and other related expenses capitalised during the development period.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is estimated by the directors based on the prevailing market conditions. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties.

Leased assets

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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

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 completed properties for sale, upon the establishment of a binding contract in respect of the sale of properties or upon the issue of a completion certificate by the relevant government authorities, whichever is the later;

(b) from the pre-sale of properties under development, when a binding contract in respect of the sale of properties has been executed and the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, the attributable revenues and profits on the pre-sold portion of the properties under development, being a proportion of the total revenues and profits expected on completion, are recognised over the course of the development. The proportion used is calculated by reference to the lower of:

    (i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and

    (ii) the proportion of the actual cash received to the total sales consideration.

    Where purchasers fail to pay the balances of the purchase price on completion and the Group exercises its right to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit and the profits recognised so far are reversed;

(c) rental income is recognised in the period in which the properties are let and on a straight-line basis over the lease terms;

(d) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(e) management fee income is recognised when services are rendered.

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 costs of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rates for the year are based on the specific attributable borrowing costs of the borrowings. 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 charged to the profit and loss account in the period in which they are incurred.

Employee benefits

Pension scheme

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 Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the 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 of China are required to participate in a central pension scheme operated by the local municipal government. Those subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme in accordance with the requirement of the relevant local regulations. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme which was adopted subsequent to the balance sheet date on 21st August, 2003 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

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

Notes to Financial Statements

31st July, 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

Deferred tax

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

Cash and cash equivalents

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

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

Related parties

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

Notes to Financial Statements

31st July, 2003

4. SEGMENT INFORMATION

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

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

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

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

No geographical segment information is presented as over 90% of the Group's customers and assets are located in Mainland of China.

Notes to Financial Statements

31st July, 2003

4. SEGMENT INFORMATION (continued)

Business segments

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

Group

	Property development		Property investment		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:						
Sales to external customers	6,712	43,064	—	—	6,712	43,064
Rental income	—	—	112,626	99,446	112,626	99,446
Other revenue	3,829	1,856	25,888	19,596	29,717	21,452
Total	10,541	44,920	138,514	119,042	149,055	163,962
Segment results	18,626	(5,815)	88,671	54,292	107,297	48,477
Interest income and other revenue					22,496	37,709
Unallocated expenses					(14,122)	(9,982)
Loss on disposal of a jointly-controlled entity					(3,772)	—
Profit from operating activities					111,899	76,204
Finance costs					(38,728)	(57,960)
Share of losses of associates	—	—	—	(43,742)	—	(43,742)
Impairment loss in amounts due from associates	—	—	(10,249)	(18,916)	(10,249)	(18,916)
Impairment loss in interests in jointly-controlled entities	—	(45,057)	—	—	—	(45,057)
Profit/(loss) before tax					62,922	(89,471)
Tax					(4,103)	(2,352)
Profit/(loss) before minority interests					58,819	(91,823)
Minority interests					(1,824)	(2,153)
Net profit/(loss) from ordinary activities attributable to shareholders					56,995	(93,976)

Notes to Financial Statements

31st July, 2003

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	Property development		Property investment		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	1,043,984	844,875	5,501,455	5,506,990	6,545,439	6,351,865
Interests in associates	—	—	607,015	599,908	607,015	599,908
Interests in jointly-controlled entities	—	5,118	—	—	—	5,118
Unallocated assets					69,928	54,146
Total assets					7,222,382	7,011,037
Segment liabilities	68,666	80,249	85,514	77,030	154,180	157,279
Unallocated liabilities					1,246,184	1,165,175
Total liabilities					1,400,364	1,322,454
Other segment information:						
Depreciation	648	45	3,165	2,927	3,813	2,972
Gain on disposal of partial interest in a subsidiary	10,372	—	16,723	—	27,095	—
Write-back of provision for a deposit paid	3,632	—	—	—	3,632	—
Deficit on revaluation of investment properties	—	—	11,473	12,009	11,473	12,009
Deficit on revaluation of properties under development held for investment potential	—	—	28,862	158,849	28,862	158,849
Capital expenditure	165,207	9,517	33,758	56,507	198,965	66,024

Notes to Financial Statements

31st July, 2003

5. 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:

		Group	
		2003	2002
	Notes	HK$'000	HK$'000
Interest income from an associate	(i)	20,959	36,919
Interest expense on loans from a substantial shareholder	(ii)	(228)	(2,318)
Rental expense paid to an associate of Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company	(iii)	(328)	(344)
Legal fees paid to a law firm, in which a director was a partner	(iv)	(414)	—

Notes:

(i) The interest is charged on an advance made to an associate at the Hong Kong dollar prime rate plus 2% per annum. Details of the advance are included in note 19 to the financial statements.

(ii) The interest is charged on the loans from a substantial shareholder. Details of the loans granted are included in note 27 to the financial statements.

(iii) The annual rental charge was calculated by reference to the prevailing open market rentals.

(iv) The legal fees were charged at market rates for legal services rendered to the Group by a law firm in which a director of the Company was admitted a partner during the year.

Notes to Financial Statements

31st July, 2003

6. TURNOVER AND REVENUE

The Group is principally engaged in property development and property investment. Turnover comprises proceeds from the sale of completed properties for sale and rental income from investment properties. An analysis of turnover and other revenue is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Turnover:		
Sale of completed properties for sale	6,712	43,064
Rental income from investment properties	112,626	99,446
	119,338	142,510
Other revenue:		
Management fee income	23,675	18,489
Interest income from:		
Bank deposits	773	790
An associate	20,959	36,919
Other income	6,806	2,963
	52,213	59,161
	171,551	201,671

Notes to Financial Statements

31st July, 2003

7. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
		2003	2002
	Notes	HK$'000	HK$'000
Auditors' remuneration:			
Charge for the year		840	700
Underprovision in prior year		100	—
		940	700
Cost of completed properties for sale		4,629	49,249
Depreciation	14	4,025	3,092
Outgoings in respect of rental income		20,932	31,331
Guaranteed office rental returns		175	165
Guaranteed service apartment rental returns		3,068	2,929
Minimum lease payments under operating leases in respect of land and buildings		233	222
Staff costs (including directors' remuneration — note 9):			
Wages and salaries		22,749	17,200
Less: Amount capitalised in properties under development		(11,870)	(7,003)
		10,879	10,197
Pension scheme contributions		361	227
Less: Forfeited contributions		(239)	(253)
		11,001	10,171
Loss on disposal of fixed assets		—	9
Write-back of provision for a deposit paid		(3,632)	—
Negative goodwill recognised as income during the year*	17	(732)	—
Foreign exchange gains, net		—	(57)

* The negative goodwill recognised in the profit and loss account for the year is included in "Other revenue" on the face of the consolidated profit and loss account.

Notes to Financial Statements

31st July, 2003

8. FINANCE COSTS

	Group 2003 HK$'000	Group 2002 HK$'000
Interest expense on:		
Bank loans wholly repayable within five years	44,023	14,559
Bank loans wholly repayable beyond five years	—	40,571
Loans from a substantial shareholder	228	2,318
Bank charges	4,168	4,983
	48,419	62,431
Less:		
Interest capitalised in properties under development	(9,691)	(4,471)
	38,728	57,960

9. DIRECTORS' REMUNERATION

Directors' remuneration 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 Companies Ordinance is as follows:

	Group 2003 HK$'000	Group 2002 HK$'000
Fees	252	225
Salaries, allowances and benefits in kind	6,530	2,920
Pension scheme contributions	72	22
	6,854	3,167
Capitalised in properties under development	(5,224)	(2,336)
	1,630	831

Fees include HK$120,000 (2002: HK$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

Notes to Financial Statements

31st July, 2003

9. DIRECTORS' REMUNERATION (continued)

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

	Number of directors 2003	2002
Nil — HK$1,000,000	12	14
HK$1,000,001 — HK$1,500,000	3	1
	15	15

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2002: two) non-director, highest paid employee are set out below:

	Group 2003 HK$'000	2002 HK$'000
Salaries, allowances and benefits in kind	1,200	1,565
Pension scheme contributions	5	12
	1,205	1,577
Capitalised in properties under development	—	(550)
	1,205	1,027

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

	Number of employees 2003	2002
Nil — HK$1,000,000	—	2
HK$1,000,001 — HK$1,500,000	1	—
	1	2

Notes to Financial Statements

31st July, 2003

11. 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 (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2003	2002
	HK$'000	HK$'000
Charge for the year for Mainland of China profits tax	3,567	3,000
Overprovision of Mainland of China profits tax in prior years	(464)	(648)
	3,103	2,352
Underprovision of Hong Kong profits tax in prior years	1,000	—
Tax charge for the year	4,103	2,352

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 12th November, 1997, pursuant to which Lai Sun Development Company Limited ("LSD") has undertaken to indemnify the Group in respect of certain potential Mainland of China income taxes and land appreciation taxes ("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 31st 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 as at 31st October, 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

The indemnity deeds assume that the Property Interests are disposed of at the value attributed to them in the Valuation, computed by reference to the rates and legislation governing Mainland of 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 18th November, 1997.

The Group had no LAT payable during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

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12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31st July, 2003 was HK$5,258,000 (2002: HK$7,459,000).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$56,995,000 (2002: net loss of HK$93,976,000) and the weighted average of 4,048,864,263 (2002: 3,180,247,007) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year. The weighted average number of ordinary shares in issue for the year ended 31st July, 2002 was not restated because there was no bonus element resulting from the aforementioned rights issue.

The diluted earnings/(loss) per share for the years ended 31st July, 2003 and 2002 have not been disclosed as no diluting events existed during these years.

14. FIXED ASSETS

Group

	31st July, 2002 HK$'000	Additions HK$'000	Disposals HK$'000	31st July, 2003 HK$'000
Cost:				
Leasehold land and buildings	46,119	2,996	—	49,115
Leasehold improvements	31	—	—	31
Furniture, fixtures and equipment	13,813	1,350	(71)	15,092
Motor vehicles	1,644	2,000	(45)	3,599
Computers	1,493	78	(2)	1,569
	63,100	6,424	(118)	69,406
Accumulated depreciation:				
Leasehold land and buildings	1,281	1,448	—	2,729
Leasehold improvements	10	6	—	16
Furniture, fixtures and equipment	9,263	1,908	(25)	11,146
Motor vehicles	1,279	370	(41)	1,608
Computers	987	293	(1)	1,279
	12,820	4,025	(67)	16,778
Net book value	50,280			52,628

The Group's leasehold land and buildings as at 31st July, 2003 are situated in Mainland of China and are held under medium term leases.

Notes to Financial Statements

31st July, 2003

15. INVESTMENT PROPERTIES

	Group 2003 HK$'000	Group 2002 HK$'000
At beginning of year, at valuation	2,952,400	2,954,000
Additions	5,773	10,409
Deficit on revaluation	(11,473)	(12,009)
At end of year, at valuation	2,946,700	2,952,400

At 31st July, 2003, the investment properties were revalued by Chesterton Petty Limited, independent professionally qualified valuers, at HK$2,946,700,000 (2002: HK$2,952,400,000) on an open market value basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

The investment properties are situated in Mainland of China and are held under medium term leases.

At 31st July, 2003, certain investment properties with a carrying value of approximately HK$2,892,530,000 (2002: HK$2,872,520,000) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 25 to the financial statements.

Notes to Financial Statements

31st July, 2003

16. PROPERTIES UNDER DEVELOPMENT

	Group 2003 HK$'000	Group 2002 HK$'000
Properties under development held for investment potential, at valuation:		
At beginning of year	2,475,382	2,630,144
Interest capitalised, net	3,889	3,482
Other additions	24,439	45,842
Reclassified to fixed assets	—	(46,119)
Deficit on revaluation	(28,862)	(158,849)
Exchange realignments	(386)	882
At end of year	2,474,462	2,475,382
Properties under development held for purposes other than investment potential, at cost:		
At beginning of year	734,598	724,423
Interest capitalised, net	5,802	989
Other additions	163,125	8,847
Exchange realignments	(257)	339
At end of year	903,268	734,598
Total balance at end of year	3,377,730	3,209,980

At 31st July, 2003, properties under development held for investment potential were revalued by Chesterton Petty Limited, independent professionally qualified valuers, on an open market value basis.

Notes to Financial Statements

31st July, 2003

16. PROPERTIES UNDER DEVELOPMENT (continued)

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

	Group 2003 HK$'000	Group 2002 HK$'000
Properties under development held for investment potential, at valuation:		
Leases of 10 to 50 years	1,976,462	1,966,382
Leases of over 50 years	498,000	509,000
	2,474,462	2,475,382
Properties under development held for purposes other than investment potential, at cost:		
Leases of 10 to 50 years	131,144	120,263
Leases of over 50 years	772,124	614,335
	903,268	734,598
	3,377,730	3,209,980

All properties under development are situated in Mainland of China.

At 31st July, 2003, certain properties under development with a carrying value amounting to approximately HK$1,303,830,000 (2002: HK$485,645,000) were pledged to banks to secure banking facilities granted to the Group as further set out in note 25 to the financial statements.

Notes to Financial Statements

31st July, 2003

17. GOODWILL AND NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of an additional interest in a subsidiary, is as follows:

	Group Negative goodwill HK$'000
Gross amount:	
Arising from acquisition of additional interest in a subsidiary during the year and balance as at 31st July, 2003	(29,115)
Accumulated recognition as income:	
Amount recognised as income during the year and balance as at 31st July, 2003	732
Net book value:	
At 31st July, 2003	(28,383)

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st August, 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of the goodwill and negative goodwill remaining in consolidated reserves as at 31st July, 2003 arising from the acquisition of subsidiaries prior to 1st August, 2001, are as follows:

	Goodwill eliminated against consolidated accumulated losses HK$'000	Goodwill eliminated against capital reserve HK$'000	Negative goodwill credited to capital reserve HK$'000	Total HK$'000
Cost:				
At beginning of year	18,019	457	(181,749)	(163,273)
Disposal of partial interest in a subsidiary	(4,054)	—	—	(4,054)
At 31st July, 2003	13,965	457	(181,749)	(167,327)

Notes to Financial Statements

31st July, 2003

18. INTERESTS IN SUBSIDIARIES

	Company 2003 HK$'000	Company 2002 HK$'000
Unlisted shares, at cost	144,272	144,272
Amounts due from subsidiaries	3,287,630	3,255,231
Amounts due to subsidiaries	(6,983)	(6,983)
	3,424,919	3,392,520

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beautiwin Limited	Hong Kong	HK$2	—	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	—	100	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd.*	Mainland of China	RMB100,000,000	—	100 **	Property development and investment
Guangzhou Grand Wealth Properties Ltd.*	Mainland of China	HK$138,000,000	—	100 **	Property development and investment
Guangzhou Gongbird Property Development Ltd.*	Mainland of China	US$22,160,000	—	100 **	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd.*	Mainland of China	HK$168,000,000	—	77.5 **	Property development and investment
Lai Fung Company Limited	Hong Kong	HK$20	100	—	Investment holding

Notes to Financial Statements

31st July, 2003

18. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Nicebird Company Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai Li Xing Real Estate Development Co., Ltd.*	Mainland of China	US$36,000,000	—	95	Property investment
Sunlite Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Wealthy Grow 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 of China	US$150,000	—	100	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.*	Mainland of China	US$10,000,000	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Property investment
Preparis Company Limited	Hong Kong	HK$20	—	100	Investment holding

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

** 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.

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

At 31st July, 2003, the shares in certain subsidiaries were pledged to secure bank loan facilities granted to the Group (note 25).

During the year, the Group acquired Preparis Company Limited ("Preparis"), further details of which are set out in note 21 to the financial statements.

Notes to Financial Statements

31st July, 2003

19. INTERESTS IN ASSOCIATES

	Group 2003 HK$'000	Group 2002 HK$'000
Share of net assets other than goodwill	—	—
Amounts due from associates	653,967	636,611
	653,967	636,611
Less: Provision for impairment	(46,952)	(36,703)
	607,015	599,908

Except for an amount of HK$298,079,000 (2002: HK$433,208,000) due from an associate which bears interest at the Hong Kong dollar prime rate plus 2% per annum, the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the above balance of "Share of net assets other than goodwill" is interest capitalised of HK$72,095,000 (2002: HK$72,095,000) on borrowings previously obtained for investments in associates engaged in property development.

Details of the principal associates 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
Shanghai Hankey Real Estate Development Co., Ltd.*	Mainland of China	— **	48.3	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.*	Mainland of China	— **	49.5	Property development and investment
Guangzhou Tianhe Baitao Culture & Entertainment Square Co., Ltd.*	Mainland of China	— **	25	Property development and investment

Notes to Financial Statements

31st July, 2003

19. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates are as follows (continued):

Name	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Guangzhou Besto Real Estate Development Co., Ltd.*	Mainland of China	— **	25	Property development and investment
Guangzhou New Wave Culture Plaza*	Mainland of China	— **	25	Property development and investment

All the above associates are indirectly held by the Company.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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

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

20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2003 HK$'000	2002 HK$'000
Share of net assets other than goodwill	42,284	50,912
Amount due from/(to) a jointly-controlled entity	276	(737)
	42,560	50,175
Less: Provision for impairment	(42,560)	(45,057)
	—	5,118

Included in the above balance of "Share of net assets" is interest capitalised of approximately HK$18,503,000 (2002: HK$18,503,000) on borrowings previously obtained for investments in jointly-controlled entities engaged in property development.

The balance with the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Details of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Zhong Shan Li Shan Properties Development Limited	Corporate	Mainland of China	50	50	50	Property development

The interest in the jointly-controlled entity is indirectly held by the Company.

21. LONG TERM INVESTMENTS

The balance represents investment in the corporate debentures issued by a country club.

On 24th June, 2003, Lai Fung Company Limited ("LFC"), a wholly-owned subsidiary of the Company, entered into an agreement with Basingstoke International Limited ("Basingstoke"), a wholly-owned subsidiary of LSD, pursuant to which Basingstoke agreed to sell and LFC agreed to purchase the entire issue share capital of Preparis, a then wholly-owned subsidiary of Basingstoke, for a total consideration of HK$2,300,000. The sole assets of Preparis are the corporate debentures issued by a country club. The transaction was completed on 25th June, 2003. As LSG held a 46.04% interest in the Company and a 42.25% interest in LSD as at the date of the transaction, the transaction constituted a related party and connected transaction for the Company as defined under SSAP 20 and the Listing Rules, respectively. However, as the consideration represented less than 3% of the book value of the net tangible assets of the Group, the transaction was only subject to the disclosure requirements set out in Chapter 14 of the Listing Rules and shareholders' approval was not required.

22. COMPLETED PROPERTIES FOR SALE

The completed properties for sale are stated at their net realisable values at both 31st July, 2003 and 31st July, 2002.

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23. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms granted by the Group range from 30 to 180 days. An aged analysis of the Group's debtors, based on the invoice date, as at 31st July, 2003 is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Amounts not yet due	—	1,735
Overdue by 30 days	—	1,510
Overdue by 60 days	1,036	3,368
Overdue by 90 days	—	1,445
Overdue by more than 90 days	9,178	23,724
Trade receivables	10,214	31,782
Deposits and prepayments	30,951	23,590
Total	41,165	55,372

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

		Group		Company	
		2003	2002	2003	2002
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances		130,940	87,081	815	86
Time deposits		58,034	20,901	48,025	20,306
		188,974	107,982	48,840	20,392
Less: Pledged bank balances	25	(1,459)	(11,698)	—	—
Pledged time deposits	25	(10,007)	—	—	—
Cash and cash equivalents		177,508	96,284	48,840	20,392

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$125,017,000 (2002: HK$82,038,000). Currently RMB is not freely convertible into other currencies, however, under Mainland of 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 which are authorised to conduct foreign exchange business.

25. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans repayable:		
Within one year	47,126	138,006
In the second year	145,772	47,138
In the third to fifth years, inclusive	928,590	493,688
Beyond five years	—	288,619
	1,121,488	967,451
Portion classified as current liabilities	(47,126)	(138,006)
Long term portion	1,074,362	829,445

The Group's bank loans are secured by:

(a) the pledge of certain of the Group's properties under development with carrying value of HK$1,303,830,000 (2002: HK$485,645,000) at the balance sheet date;

(b) mortgages over the Group's investment properties, with carrying value of HK$2,892,530,000 (2002: HK$2,872,520,000) at the balance sheet date;

(c) the pledge of the Group's bank balances and time deposits of HK$1,459,000 (2002: HK$11,698,000) and HK$10,007,000 (2002: Nil), respectively;

(d) mortgages over the entire registered capital of two of the Group's subsidiaries; and

(e) corporate guarantees provided by the Company.

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26. CREDITORS AND ACCRUALS

The aged analysis of the Group's creditors as at 31st July, 2003, based on the invoice date, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 1 month	4,665	6,569
Between 1 to 3 months	145	167
Over 3 months	68,458	56,720
Trade payables	73,268	63,456
Accruals and other creditors	142,074	163,969
Total	215,342	227,425

27. LOANS FROM A SUBSTANTIAL SHAREHOLDER

During the year, the following loans were granted by a substantial shareholder to the Group:

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Interest-bearing at the best lending rate quoted by a specified bank	—	787	—	787
Interest-bearing at LIBOR	—	20,238	—	—
Interest-free	16,170	65,861	—	5,838
	16,170	86,886	—	6,625
Portion classified as current liabilities	(16,170)	—	—	—
Long term portion	—	86,886	—	6,625

28. DEFERRED TAX

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$221,907,000 (2002: HK$231,978,000) and HK$825,492,000 (2002: HK$838,400,000) 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.

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

Notes to Financial Statements

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29. SHARE CAPITAL

Shares

	Number of shares 2003 '000	Nominal value 2003 HK$'000	Number of shares 2002 '000	Nominal value 2002 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	7,000,000	700,000	7,000,000	700,000
Issued and fully paid:				
Ordinary shares of HK$ 0.10 each	4,606,241	460,624	3,838,534	383,853

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

	Notes	Number of shares in issue '000	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1st August, 2001		3,070,827	307,083	3,228,831	3,535,914
Rights issue	(b)	767,707	76,770	—	76,770
Share issue expenses		—	—	(3,142)	(3,142)
At 31st July, 2002 and 1st August, 2002		3,838,534	383,853	3,225,689	3,609,542
Rights issue	(a)	767,707	76,771	—	76,771
Share issue expenses		—	—	(3,413)	(3,413)
At 31st July, 2003		4,606,241	460,624	3,222,276	3,682,900

Notes:

(a) During the year of 2003, a rights issue of one rights share for every five existing shares held by members on the register of members on 31st March, 2003 was made, at an issued price of HK$0.10 per rights share, resulting in the issue of 767,706,730 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$76,770,000, which was used as working capital of the Group.

(b) During the year of 2002, a rights issue of one rights share for every four existing shares held by members on the register of members on 31st May, 2002 was made, at an issued price of HK$0.10 per rights share, resulting in the issue of 767,706,730 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$76,770,000, which was used as working capital of the Group.

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29. SHARE CAPITAL (continued)

Share options

Subsequent to the balance sheet date, on 21st August, 2003, the Company adopted a share option scheme. Further details of the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

Subsequent to the balance sheet date, on 21st 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 unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. 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 is 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 the 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 the 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 on the acceptance date and ends on a date which is not later than eight years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the 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 the 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.

On 19th September, 2003, a total of 92,124,800 share options were granted to two directors of the Company in respect of their services to the Group in the forthcoming year. These share options have an exercise price of HK$0.169 per share and exercise period ranging from 3rd October, 2003 to 2nd October, 2011. The price of the Company's shares at the date of grant was HK$0.161 per share.

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31. 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 36 and 37 of the financial statements.

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated accumulated losses and credited to the capital reserve, as explained in note 17 to the financial statements.

(b) Company

	Note	Share premium account HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st August, 2001		3,228,831	(9,558)	(188,713)	3,030,560
Share issue expenses	29	(3,142)	—	—	(3,142)
Loss for the year		—	—	(7,459)	(7,459)
At 31st July, 2002 and 1st August, 2002		3,225,689	(9,558)	(196,172)	3,019,959
Share issue expenses	29	(3,413)	—	—	(3,413)
Loss for the year		—	—	(5,258)	(5,258)
At 31st July, 2003		3,222,276	(9,558)	(201,430)	3,011,288

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

	Note	2003 HK$'000
Net assets acquired:		
Long term investments	21	2,300
Satisfied by:		
Cash		2,300

The net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is HK$2,300,000.

Notes to Financial Statements

31st July, 2003

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from two months to ten years. The terms of the leases generally also require the tenants to pay security deposits.

At 31st July, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	58,532	59,202
In the second to fifth years, inclusive	112,730	119,387
After five years	65,002	83,147
	236,264	261,736

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms of two years.

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

	Group	
	2003	2002
	HK$'000	HK$'000
Within one year	97	233
In the second to fifth years, inclusive	—	97
	97	330

34. CONTINGENT LIABILITIES

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

	Company	
	2003	2002
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	1,280,000	1,166,000

34. CONTINGENT LIABILITIES (continued)

(a) (continued)

As at 31st July, 2003, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$1,027,237,000 (2002: HK$967,000,000).

(b) 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 property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

(c) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, the Company agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

35. COMMITMENTS

At the balance sheet date, the Group had capital commitments in respect of the following:

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted, but not provided for:		
Land premium, resettlement, compensation and construction costs	744,917	560,937

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

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7th November, 2003.