Notes to Financial Statements

31st July, 2004

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 A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (''SSAP'')

The following revised SSAP and Interpretation are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- Interpretation 20: "Income taxes — Recovery of revalued non-depreciable assets"

The SSAP and Interpretation 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 adopting the SSAP and Interpretation are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group's land and buildings;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries.

Notes to Financial Statements

31st July, 2004

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (''SSAP'') (continued)

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 28 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 28 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

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, 2004. 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.

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 the jointly-controlled entity 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 entity is determined based on the agreed profit sharing ratio. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Notes to Financial Statements

31st July, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of 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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP 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, 2004

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, 2004

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 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 the straight-line basis over the lease terms;

(d) interest income, 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.

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 MPF 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 China are required to participate in a central pension scheme operated by the local municipal government. Those subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme 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 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.

Notes to Financial Statements

31st July, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, 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.

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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, 2004

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland of China, and over 90% of the Group's assets are located in Mainland of China.

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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31st July, 2004

4. SEGMENT INFORMATION (continued)

Business segments

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

Group

	Property development		Property investment		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment revenue:						
Sales to external customers	**501,600**	6,712	**—**	—	**501,600**	6,712
Rental income	**—**	—	**128,604**	112,626	**128,604**	112,626
Other revenue	**826**	3,829	**33,452**	25,888	**34,278**	29,717
Total	**502,426**	10,541	**162,056**	138,514	**664,482**	149,055
Segment results	**90,496**	18,626	**93,623**	88,671	**184,119**	107,297
Interest income and other revenue					**24,036**	22,034
Unallocated expenses					**(20,497)**	(14,122)
Loss on disposal of a jointly-controlled entity					**—**	(3,772)
Profit from operating activities					**187,658**	111,437
Finance costs					**(31,758)**	(38,728)
Share of profit of an associate	**—**	—	**30,125**	—	**30,125**	—
Write-back of impairment loss/(impairment loss) in amounts due from associates	**—**	—	**11,865**	(31,377)	**11,865**	(31,377)
Write-back of provision for impairment in an interest in a jointly-controlled entity	**42,555**	—	**—**	—	**42,555**	—
Profit before tax					**240,445**	41,332
Tax					**(63,820)**	(40,462)
Profit before minority interests					**176,625**	870
Minority interests					**(3,851)**	3,483
Net profit from ordinary activities attributable to shareholders					**172,774**	4,353

Notes to Financial Statements

31st July, 2004

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	Property development		Property investment		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment assets	**1,226,820**	1,043,984	**5,785,012**	5,501,455	**7,011,832**	6,545,439
Interests in associates	—	—	**626,595**	574,565	**626,595**	574,565
Unallocated assets					**106,838**	87,831
Total assets					**7,745,265**	7,207,835
Segment liabilities	**117,553**	68,666	**87,316**	85,514	**204,869**	154,180
Unallocated liabilities					**2,049,390**	1,801,967
Total liabilities					**2,254,259**	1,956,147
Other segment information:						
Depreciation	**706**	648	**2,318**	3,165	**3,024**	3,813
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)
Write-back of provision for a completed property for sale	—	—	**(2,533)**	—	**(2,533)**	—
Deficit on revaluation of investment properties	—	—	**252,156**	11,473	**252,156**	11,473
Deficit/(surplus) on revaluation of properties under development held for investment potential	—	—	**(333,548)**	28,862	**(333,548)**	28,862
Capital expenditure	**203,484**	165,207	**111,466**	33,758	**314,950**	198,965

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	
		2004	2003
	Notes	**HK$'000**	HK$'000
Interest income from an associate	(i)	**20,933**	20,959
Interest expense on loans from a substantial shareholder	(ii)	**(758)**	(228)
Rental expense paid to an associate of Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company	(iii)	**(563)**	(328)
Rental expense paid to a director	(iii)	**(825)**	—
Legal fees paid to a law firm, in which a director of the Company was a partner	(iv)	**(442)**	(414)
Advertising fees paid to related companies	(v)	**(7,812)**	—

Notes:

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

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

(iii) The annual rental charges were based on the terms stated in the lease agreements.

(iv) The legal fees were charged for legal services rendered to the Group by a law firm in which a director of the Company was a partner, based on mutual agreement.

(v) The related companies are subsidiaries of eSun Holdings Limited ("eSun") in which certain directors of the Company are also directors of eSun.

The terms of the advertising fees were determined based on mutual agreement between the Group and the related companies.

Notes to Financial Statements

31st July, 2004

6. TURNOVER AND REVENUE

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

	Group	
	2004	2003
	HK$'000	HK$'000
		(Restated)
Turnover:		
Sales of properties	**501,600**	6,712
Rental income from investment properties	**128,604**	112,626
	630,204	119,338
Other revenue:		
Management fee income	**27,212**	23,675
Interest income from:		
Bank deposits	**647**	773
An associate	**20,933**	20,959
Other income	**9,522**	6,344
	58,314	51,751
	688,518	171,089

Notes to Financial Statements

31st July, 2004

7. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
		2004	2003
	Notes	**HK$'000**	HK$'000
			(Restated)
Auditors' remuneration:			
Charge for the year		**920**	840
Underprovision in the prior year		**—**	100
		920	940
Cost of completed properties held for sale		**174,976**	4,629
Cost of pre-sale of properties under development		**209,379**	—
Outgoings in respect of rental income		**22,091**	20,932
Total cost of sales		**406,446**	25,561
Depreciation	14	**3,930**	4,025
Guaranteed service apartment rental returns		**2,797**	3,068
Minimum lease payments under operating leases in respect of land and buildings		**1,402**	233
Staff costs (including directors' remuneration — note 9):			
Wages and salaries		**41,195**	22,749
Less: Amount capitalised in properties under development		**(22,436)**	(11,870)
		18,759	10,879
Pension scheme contributions		**577**	361
Less: Forfeited contributions		**—**	(239)
Net pension contributions		**577**	122
		19,336	11,001
Write-back of provision for a deposit paid		**—**	(3,632)
Write-back of provision for a completed property for sale		**(2,533)**	—
Negative goodwill recognised as income*	17	**(270)**	(270)
Foreign exchange gains, net		**(2,185)**	—

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

Notes to Financial Statements

31st July, 2004

8. FINANCE COSTS

	Group 2004 HK$'000	Group 2003 HK$'000
Interest expense on:		
Bank loans wholly repayable within five years	**47,773**	44,023
Loans from a substantial shareholder	**758**	228
Bank charges	**4,150**	4,168
	52,681	48,419
Less:		
Interest capitalised in properties under development	**(20,923)**	(9,691)
	31,758	38,728

9. DIRECTORS' REMUNERATION

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

	Group 2004 HK$'000	Group 2003 HK$'000
Fees	**499**	252
Salaries, allowances and benefits in kind	**12,744**	6,530
Pension scheme contributions	**161**	72
	13,404	6,854
Capitalised in properties under development	**(9,535)**	(5,224)
	3,869	1,630

Fees include HK$120,000 (2003: 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 (2003: Nil).

9. DIRECTORS' REMUNERATION (continued)

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

	Number of directors	
	2004	2003
Nil – HK$1,000,000	**10**	12
HK$1,000,001 – HK$1,500,000	**—**	3
HK$1,500,001 – HK$2,000,000	**2**	—
HK$2,000,001 – HK$2,500,000	**1**	—
HK$3,000,001 – HK$3,500,000	**2**	—
	15	15

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

During the year, 92,124,800 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 30 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2003: one) non-director, highest paid employee for the year are set out below:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,399**	1,200
Pension scheme contributions	**100**	5
	2,499	1,205
Capitalised in properties under development	**(1,919)**	—
	580	1,205

Notes to Financial Statements

31st July, 2004

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 (2003: 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	
	2004	2003
	HK$'000	HK$'000 (Restated)
Charge for the year for Mainland of China profits tax	**38,470**	3,567
Under/(over)provision of Mainland of China profits tax in prior years	**4,855**	(464)
	43,325	3,103
Under/(over)provision of Hong Kong profits tax in prior years	**(100)**	1,000
	43,225	4,103
Deferred tax (note 28)	**8,773**	36,359
	51,998	40,462
Share of deferred tax attributable to an associate	**11,822**	—
Total tax charge for the year	**63,820**	40,462

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

	Group			
	2004		2003	
	HK$'000	**%**	HK$'000	%
Profit before tax	**240,445**		41,332	
Tax at the statutory tax rate	**79,347**	**33.0**	13,640	33.0
Lower tax rate for other jurisdictions	**(8,937)**	**(3.7)**	2,935	7.1
Adjustments in respect of current tax of previous periods	**4,755**	**1.9**	536	1.3
Income not subject to tax	**(12,622)**	**(5.2)**	(11,111)	(26.9)
Expenses not deductible for tax	**892**	**0.4**	34,135	82.6
Tax losses utilised from previous periods	**(15)**	**—**	(6)	—
Tax losses not recognised	**400**	**0.1**	333	0.8
Tax charge at the Group's effective rate	**63,820**	**26.5**	40,462	97.9

11. TAX (continued)

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

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, 2004 was HK$6,047,000 (2003: HK$5,258,000) (note 31(b)).

13. EARNINGS 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$172,774,000 (2003 — restated: HK$4,353,000) and the weighted average of 5,097,409,009 (2003: 4,388,064,327) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of diluted earnings per share for the year is based on the net profit attributable to shareholders for the year of HK$172,774,000 and the weighted average number of 5,101,620,993 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

Notes to Financial Statements

31st July, 2004

13. EARNINGS PER SHARE (continued)

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 5,097,409,009 ordinary shares in issue during the year plus the weighted average of 4,211,984 ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

The diluted earnings per share for the year ended 31st July, 2003 has not been disclosed as no diluting events existed during that year.

14. FIXED ASSETS

Group

	31st July, 2003 HK$'000	Additions HK$'000	Disposals HK$'000	**31st July, 2004 HK$'000**
Cost:				
Leasehold land and buildings	49,115	5	—	**49,120**
Leasehold improvements	31	73	—	**104**
Furniture, fixtures and equipment	15,092	4,223	(284)	**19,031**
Motor vehicles	3,599	2,379	—	**5,978**
Computers	1,569	259	(44)	**1,784**
	69,406	6,939	(328)	**76,017**
Accumulated depreciation:				
Leasehold land and buildings	2,729	1,364	—	**4,093**
Leasehold improvements	16	21	—	**37**
Furniture, fixtures and equipment	11,146	1,750	(104)	**12,792**
Motor vehicles	1,608	641	—	**2,249**
Computers	1,279	154	(44)	**1,389**
	16,778	3,930	(148)	**20,560**
Net book value	52,628			**55,457**

The Group's leasehold land and buildings as at 31st July, 2004 are situated in Mainland of China and are held under medium term leases.

15. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK$'000	HK$'000
At beginning of year, at valuation	**2,946,700**	2,952,400
Additions	**9,856**	5,773
Deficit on revaluation	**(252,156)**	(11,473)
At end of year, at valuation	**2,704,400**	2,946,700

At 31st July, 2004, the investment properties were revalued by Chesterton Petty Limited, independent professionally qualified valuers, at HK$2,704,400,000 (2003: HK$2,946,700,000) 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 Group's investment properties are situated in Mainland of China and are held under the following lease terms:

	Group	
	2004	2003
	HK$'000	HK$'000
Long term leases	**8,400**	—
Medium term leases	**2,696,000**	2,946,700
	2,704,400	2,946,700

At 31st July, 2004, certain investment properties with a carrying value of approximately HK$2,642,480,000 (2003: HK$2,892,530,000) 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, 2004

16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2004	2003
	HK$'000	HK$'000
Properties under development held for investment potential, at valuation:		
At beginning of year	**2,474,462**	2,475,382
Interest capitalised	**9,974**	3,889
Other additions	**97,779**	24,439
Reclassified from properties under development held for purposes other than investment potential, at cost	**50,126**	—
Surplus/(deficit) on revaluation	**333,548**	(28,862)
Exchange realignments	**111**	(386)
At end of year	**2,966,000**	2,474,462
Properties under development held for purposes other than investment potential, at cost:		
At beginning of year	**903,268**	734,598
Interest capitalised	**10,949**	5,802
Other additions	**200,708***	163,125
Reclassified to properties under development held for investment potential, at cost	**(50,126)**	—
Transferred to completed properties for sale	**(189,881)**	—
Attributable profits on projects in progress	**88,346**	—
Sale deposits and instalments received	**(294,776)**	—
Exchange realignments	**170**	(257)
At end of year	**668,658**	903,268
Total balance at end of year	**3,634,658**	3,377,730

At 31st July, 2004, properties under development held for investment potential were revalued by Chesterton Petty Limited, independent professionally qualified valuers, on an open market value basis.

* Amount includes the land obtained for the Group's giving up of its entitlement in a jointly-controlled entity. The carrying value of the land is approximately HK$42.5 million as at 31st July, 2004, further details of which was set out in note 20 to the financial statements.

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	
	2004	2003
	HK$'000	HK$'000
Properties under development held for investment potential, at valuation:		
Leases of 10 to 50 years	**2,503,000**	1,976,462
Leases of over 50 years	**463,000**	498,000
	2,966,000	2,474,462
Properties under development held for purposes other than investment potential, at cost:		
Leases of 10 to 50 years	**—**	131,144
Leases of over 50 years	**668,658**	772,124
	668,658	903,268
	3,634,658	3,377,730

All properties under development are situated in Mainland of China.

At 31st July, 2004, certain properties under development with a carrying value amounting to approximately HK$1,562,385,000 (2003: HK$1,303,830,000) 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, 2004

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:	
At beginning of year	
As previously reported	(29,115)
Prior year adjustment: SSAP 12 — restatement of deferred tax	18,365
As restated and at 31st July, 2004	(10,750)
Accumulated recognition as income:	
At beginning of year	
As previously reported	732
Prior year adjustment: SSAP 12 — restatement of deferred tax	(462)
As restated	270
Amount recognised as income during the year	270
At 31st July, 2004	540
Net book value:	
At 31st July, 2004	(10,210)
At 31st July, 2003	(10,480)

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

17. GOODWILL AND NEGATIVE GOODWILL (continued)

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31st July, 2004, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

	Goodwill eliminated against consolidated accumulated losses	**Goodwill eliminated against capital reserve**	**Negative goodwill credited to capital reserve**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Cost:				
At beginning of year				
As previously reported	13,965	457	(181,749)	(167,327)
Prior year adjustment:				
SSAP 12 — restatement of deferred tax	46,621	—	123,229	169,850
As restated and at 31st July, 2004	60,586	457	(58,520)	2,523

Notes to Financial Statements

31st July, 2004

18. INTERESTS IN SUBSIDIARIES

	Company 2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	**144,270**	144,272
Amounts due from subsidiaries	**3,378,774**	3,287,630
Amounts due to subsidiaries	**(6,983)**	(6,983)
	3,516,061	3,424,919

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
Canvex Limited	Hong Kong	HK$2	—	100	Property investment
Goldthorpe Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK$2	—	77.5	Investment holding
Guangzhou 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
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

18. INTERESTS IN SUBSIDIARIES (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
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
Manuful Concept Limited	Hong Kong	HK$2	—	100	Investment holding
Zhongshan Bao Li Properties Development Limited@	Mainland of China	RMB31,832,500*	—	100	Property development and investment

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

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

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

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

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

At 31st July, 2004, the shares in certain subsidiaries were pledged to secure bank loan facilities granted to the Group (note 25).

Notes to Financial Statements

31st July, 2004

19. INTERESTS IN ASSOCIATES

	Group 2004 HK$'000	Group 2003 HK$'000 (Restated)
Share of net assets other than goodwill	**16,857**	—
Amounts due from associates	**677,199**	653,967
	694,056	653,967
Less: Provision for impairment	**(67,461)**	(79,402)
	626,595	574,565

Except for an amount of HK$298,329,000 (2003: HK$298,079,000) 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" was interest capitalised of HK$72,095,000 (2003: HK$72,095,000) on borrowings previously obtained for investments in associates engaged in property development.

19. INTERESTS IN ASSOCIATES (continued)

Details of the 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
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.

Notes to Financial Statements

31st July, 2004

19. INTERESTS IN ASSOCIATES (continued)

In prior years, one of the associates (the "Associate") entered into an agreement with a PRC party under which the Associate was responsible for the construction of a building and the construction costs were contributed by the Associate and the PRC party at an agreed ratio. Upon the completion of the construction, the PRC party will have the ownership of the building whilst the Associate is entitled to the right (the "Right") to receive income derived from certain portions of the building for 20 years. The construction costs paid were recorded as a long term deposit in the financial statements of the Associate. The building was completed in prior years and the actual construction cost incurred had exceeded the budgeted cost. As the then expected return of the Right is unable to cover the carrying value of the long term deposit, an impairment loss of HK$90 million was made in the financial statements of the Associate against the long term deposit in prior years.

A supplementary agreement was signed subsequently with the PRC party who agreed to transfer the legal title of part of the subject building to the Associate (the "Land Transfer") at an agreed consideration plus any related costs arising from the Land Transfer.

Upon the completion of the Land Transfer, the Associate has reversed the impairment loss made in prior years to the current year's profit and loss account with reference to the current market value of the building. The effect of the reversal was equity accounted for in the current year's financial statements of the Group.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets other than goodwill	—	42,284
Amount due from a jointly-controlled entity	—	276
	—	42,560
Less: Provision for impairment	—	(42,560)
	—	—

Included in the above balance of "Share of net assets other than goodwill" was interest capitalised of approximately 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 was unsecured, interest-free and had no fixed terms of repayment.

Notes to Financial Statements

31st July, 2004

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Details of the jointly-controlled entity as at 31st July, 2003 were as follows:

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

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

Li Shan was engaged in property development and the only investment of Li Shan was a piece of land in Mainland of China (the "Site").

In 2002, the directors considered that it was no longer commercially feasible to continue the development of the Site with reference to the prevailing marketing conditions. Accordingly, a full provision of approximately HK$42.5 million was made against the interest in Li Shan.

During the year, the Group entered into an agreement with Li Shan, and a third party, pursuant to which the Group gave up its interest in Li Shan and in return was compensated by a new piece of land (the "New Land") in Mainland of China. Accordingly, the impairment loss of interest in Li Shan of approximately HK$42.5 million was reversed and credited to current year's profit and loss account, based on directors' assessment of the recoverable amount of Li Shan with reference to the prevailing market value of the New Land. As at 31st July, 2004, the New Land is recognised as properties under development held for purposes other than investment potential with carrying amount of approximately HK$42.5 million.

21. LONG TERM INVESTMENTS

The balance represented investment in the corporate debentures issued by a country club which were disposed of during the year.

Notes to Financial Statements

31st July, 2004

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

		Group		Company	
		2004	2003	**2004**	2003
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**495,267**	130,940	**11,547**	815
Less: Bank balances pledged for long term bank facilities*		**(10,262)**	—	**—**	—
Less: Bank balances pledged for bank loans due within one year	25	**(6,871)**	(1,459)	**—**	—
Non-pledged cash and bank balances		**478,134**	129,481	**11,547**	815
Time deposits		**70,596**	58,034	**70,000**	48,025
Less: Time deposits pledged for bank loans due within one year	25	**—**	(10,007)	**—**	—
Non-pledged time deposits		**70,596**	48,027	**70,000**	48,025
Cash and cash equivalents		**548,730**	177,508	**81,547**	48,840

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$463,228,000 (2003: HK$125,017,000). 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.

* The balance represents bank balances pledged to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group. The bank balances are not expected to be released within 12 months from the balance sheet date and are therefore, classified as non-current assets.

23. COMPLETED PROPERTIES FOR SALE

The carrying amount of completed properties for sale carried at net realisable value was HK$9,893,000 (2003: HK$16,168,000) at the balance sheet date.

Notes to Financial Statements

31st July, 2004

24. 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, 2004 is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 1 month	**7,246**	—
Between 1 to 2 months	**15,587**	—
Between 2 to 3 months	**6,116**	1,036
Between 3 to 6 months	**24,700**	—
Over 6 months	**10,882**	9,178
Trade receivables	**64,531**	10,214
Deposits and prepayments	**41,324**	30,951
Total	**105,855**	41,165

25. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2004	2003
	HK$'000	HK$'000
Bank loans repayable:		
Within one year	**89,227**	47,126
In the second year	**405,983**	145,772
In the third to fifth years, inclusive	**687,610**	928,590
	1,182,820	1,121,488
Portion classified as current liabilities	**(89,227)**	(47,126)
Long term portion	**1,093,593**	1,074,362

Notes to Financial Statements

31st July, 2004

25. INTEREST-BEARING BANK LOANS, SECURED (continued)

The Group's bank loans are secured by:

(a) mortgages over certain of the Group's investment properties, with an aggregate carrying value of HK$2,642,480,000 (2003: HK$2,892,530,000) at the balance sheet date;

(b) the pledge of certain of the Group's properties under development with an aggregate carrying value of HK$1,562,385,000 (2003: HK$1,303,830,000) at the balance sheet date;

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

(d) the pledge of the Group's bank balances and time deposits of HK$6,871,000 (2003: HK$1,459,000) and nil (2003: HK$10,007,000), respectively, at the balance sheet date; and

(e) corporate guarantees provided by the Company.

26. CREDITORS AND ACCRUALS

An aged analysis of the Group's creditors, based on the invoice date, as at 31st July, 2004 is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 1 month	**36,718**	4,665
Between 1 to 3 months	**2,465**	145
Over 3 months	**37,062**	68,458
Trade payables	**76,245**	73,268
Accruals and other creditors	**181,265**	142,074
Total	**257,510**	215,342

27. LOANS FROM A SUBSTANTIAL SHAREHOLDER

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

	Group	
	2004	2003
	HK$'000	HK$'000
Interest-bearing at best lending rate quoted by a specified bank	**6,598**	—
Interest-free	**4,726**	16,170
	11,324	16,170

Notes to Financial Statements

31st July, 2004

28. DEFERRED TAX LIABILITIES

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

Group

	2004			
	Accelerated tax depreciation HK$'000	**Revaluation of properties HK$'000**	**Losses available for offset against future taxable profit HK$'000**	**Total HK$'000**
At 1st August, 2003				
As previously reported	—	—	—	—
Prior year adjustment:				
SSAP 12 — restatement of deferred tax	**238,182**	**337,731**	**(20,130)**	**555,783**
As restated	**238,182**	**337,731**	**(20,130)**	**555,783**
Deferred tax charged to the profit and loss account during the year (note 11)	**444**	—	**8,329**	**8,773**
Deferred tax debited to equity during the year	—	**146,954**	—	**146,954**
At 31st July, 2004	**238,626**	**484,685**	**(11,801)**	**711,510**

	2003			
	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Losses available for offset against future taxable profit HK$'000	Total HK$'000
At 1st August, 2002				
As previously reported	—	—	—	—
Prior year adjustment:				
SSAP 12 — restatement of deferred tax	205,763	258,621	(24,070)	440,314
As restated	205,763	258,621	(24,070)	440,314
Deferred tax charged to the profit and loss account during the year (note 11)	32,419	—	3,940	36,359
Deferred tax debited to equity during the year	—	79,110	—	79,110
At 31st July, 2003	238,182	337,731	(20,130)	555,783

Notes to Financial Statements

31st July, 2004

28. DEFERRED TAX LIABILITIES (continued)

At 31st July, 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liabilities by HK$711,510,000 and HK$555,783,000 as at 31st July, 2004 and 2003, respectively.

The effects of the adjustments to these consolidated financial statements are summarised as follows:

	Increase/(decrease)	
	1st August, 2003 HK$'000	1st August, 2002 HK$'000
Balance sheet		
Deferred tax liabilities	**555,783**	440,314
Negative goodwill	**(17,903)**	—
Interests in associates	**(32,450)**	(11,322)
Minority interests	**(45,428)**	(40,685)
Reserves	**(524,902)**	(410,951)

	Increase/(decrease)	
	For the year ended 31st July, 2004 HK$'000	For the year ended 31st July, 2003 HK$'000
Profit and loss account		
Deferred tax expenses, net (including share of deferred tax expenses attributable to an associate)	**(20,595)**	(36,359)
Decrease/(increase) in impairment loss in amounts due from associates due to restatement of interests in associates	**5,304**	(21,128)
Decrease in negative goodwill recognised as income due to restatement of negative goodwill	**(462)**	(462)
Minority interests	**370**	5,307
	(15,383)	(52,642)

Notes to Financial Statements

31st July, 2004

29. SHARE CAPITAL

Shares

	Number of shares 2004 '000	Nominal value 2004 HK$'000	Number of shares 2003 '000	Nominal value 2003 HK$'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	**5,872,956**	**587,296**	4,606,241	460,624

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

	Notes	Number of shares in issue '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 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 and 1st August, 2003		4,606,241	460,624	3,222,276	3,682,900
Rights issue	(b)	1,174,591	117,460	—	117,460
Exercise of share options	(c)	92,124	9,212	6,357	15,569
Share issue expenses		—	—	(3,957)	(3,957)
At 31st July, 2004		5,872,956	587,296	3,224,676	3,811,972

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$76,771,000, which was used as working capital of the Group.

(b) During the year of 2004, a rights issue of one rights share for every four existing shares held by members on the register of members on 23rd June, 2004 was made, at an issued price of HK$0.10 per rights share, resulting in the issue of 1,174,591,295 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$117,460,000, which was used to meet the capital contribution requirement of the Group relating to property projects in Zhongshan in Mainland of China and as working capital of the Group.

(c) During the year of 2004, the subscription rights attaching to 92,124,800 share options were exercised at the subscription price of HK$0.169 per share (note 30), resulting in the issue of 92,124,800 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$15,569,000.

Notes to Financial Statements

31st July, 2004

29. SHARE CAPITAL (continued)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

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, whichever is 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. These share options have an exercise price of HK$0.169 per share and an exercise period ranging from 3rd October, 2003 to 2nd October, 2011. The closing price of the Company's shares at the date of grant was HK$0.161 per share.

Notes to Financial Statements

31st July, 2004

30. SHARE OPTION SCHEME (continued)

On 8th January, 2004, the 92,124,800 share options were exercised by the directors. The closing price of the Company's shares at the date immediately before the date of exercise was HK$0.255 per share. There was no share options outstanding as at 31st July, 2004 (2003: Nil).

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 44 and 45 of the financial statements.

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against/credited to consolidated accumulated losses and 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, 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 and 1st August, 2003		3,222,276	(9,558)	(201,430)	3,011,288
Exercise of share options	29	6,357	—	—	6,357
Share issue expenses	29	(3,957)	—	—	(3,957)
Loss for the year		—	—	(6,047)	(6,047)
At 31st July, 2004		3,224,676	(9,558)	(207,477)	3,007,641

Notes to Financial Statements

31st July, 2004

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2004	2003
	HK$'000	HK$'000
Net assets acquired:		
Long term investments	—	2,300
Satisfied by:		
Cash	—	2,300

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

The results of the subsidiary acquired in the year ended 31st July, 2003 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

(b) Disposal of a subsidiary

	2004	2003
	HK$'000	HK$'000
Net assets disposed of:		
Long term investments	**2,300**	—
Loss on disposal of a subsidiary	**(290)**	—
	2,010	—
Satisfied by:		
Cash	**2,010**	—

The net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is HK$2,010,000.

The results of the subsidiary disposed of has no significant impact on the Group's consolidated turnover or profit after tax for the year ended 31st July, 2004.

(c) Major non-cash transaction

During the year, the Group gave up its interest in a jointly-controlled entity and in return was compensated by a new piece of land with a carrying value of approximately HK$42.5 million as at 31st July, 2004, further details of which are set out in note 20 to the financial statements.

Notes to Financial Statements

31st July, 2004

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, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**73,784**	58,532
In the second to fifth years, inclusive	**111,790**	112,730
After five years	**49,310**	65,002
	234,884	236,264

(b) As lessee

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

At 31st July, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**133**	97
In the second to fifth years, inclusive	**29**	—
	162	97

Notes to Financial Statements

31st July, 2004

34. CONTINGENT LIABILITIES

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

	Company	
	2004	2003
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**1,166,581**	1,280,000

As at 31st July, 2004, 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$1,017,866,000 (2003: HK$1,027,237,000).

(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 Group 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 Group at the balance sheet date.

(c) Under mortgage loan facilities provided by banks to the end-buyers of Eastern Place Phase I, Phase II and Phase III and Regents Park Phase I, the Group agreed to provide guarantees to the banks 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 Group at the balance sheet date.

35. COMMITMENTS

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

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted, but not provided for:		
Land premium, resettlement, compensation and construction costs	**572,530**	744,917

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

Notes to Financial Statements

31st July, 2004

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP 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 prior year adjustments have been made and certain comparative amounts have been restated 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 12th November, 2004.