Notes to Financial Statements

31st July, 2005

1. CORPORATE INFORMATION

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

During the year, the Group was involved in the following principal activities:

- property investment
- property development for sale
- investment in and the operation of hotels and restaurants
- investment holding

2. CORPORATE UPDATE

During the prior year, the Company reached an agreement, in principle, with the informal committee (the "Informal Committee") of the holders of exchangeable bonds and convertible bonds (the "Bondholders") concerning the settlement of HK$881 million payable under the exchangeable bonds (principal amount of HK$622 million (note 29) and accrued bond redemption premium of HK$259 million) (the "Exchangeable Bonds") and of HK$1,260 million payable under the convertible bonds (principal amount of HK$907 million (note 30) and accrued bond redemption premium of HK$353 million) (the "Convertible Bonds") together with their accrued interests of HK$138 million owed by the Group to the Bondholders (the "Bonds Settlement").

The Bonds Settlement included the settlement of the outstanding principal amount, accrued bond redemption premium of the Exchangeable Bonds and the Convertible Bonds (collectively defined as the "Bonds") and outstanding accrued interest amounted to approximately HK$2,279 million in total as at 31st July, 2004, and an agreed settlement premium of approximately US$33 million (equivalent to approximately HK$257 million).

On 28th June, 2004, the Company and Furama Hotel Enterprises Limited ("FHEL"), a wholly-owned subsidiary of the Company, entered into a settlement agreement with eSun Holdings Limited ("eSun") (the "eSun Settlement Agreement") in connection with the settlement of an amount payable to Golden Pool Enterprise Limited ("GPEL"), a wholly-owned subsidiary of eSun, of approximately HK$1,500 million (the "Debt") (note 22). The eSun Settlement Agreement included an agreed settlement premium of approximately HK$1,345 million, which was to be payable to eSun upon the completion of the eSun Settlement Agreement.

Further details of the principal terms of the Bonds Settlement and the eSun Settlement Agreement are set out in the Company's circular dated 15th September, 2004 (the "Circular").

On 6th October, 2004, the Bondholders held a meeting in accordance with the terms of the Bonds and passed the necessary resolutions to duly approve the terms of the Bonds Settlement agreed between the Informal Committee and the Company.

Notes to Financial Statements

31st July, 2005

2. CORPORATE UPDATE (continued)

Pursuant to a resolution passed at a special general meeting held by eSun on 13th October, 2004, the independent shareholders of eSun also approved the eSun Settlement Agreement. On the same date, pursuant to a resolution passed at the extraordinary general meeting held by the Company, the Bonds Settlement and the eSun Settlement Agreement (collectively, the "Settlements") were duly approved by independent shareholders of the Company. On 7th December, 2004, the Settlements were completed (the "Completion").

Further details on the Completion and other transactions in relation to the Settlements are described below.

Bonds Settlement

On 18th October, 2004, upon fulfilling certain specified conditions as set out in the Settlements, cash repayments of US$38 million (equivalent to approximately HK$300 million) were made to the Bondholders.

Pursuant to the Bonds Settlement, the residual principal indebtedness in the amount of approximately HK$266 million (the "A Bonds") and a further principal amount of approximately HK$70 million (the "B Bonds") were issued to the Bondholders upon the Completion. These bonds are due for settlement by the Group on or before 31st December, 2005. Both the A Bonds and the B Bonds are interest-free and are secured, further details of which are set out in note 29 to the financial statements.

The remaining balance of approximately HK$1,900 million from the Bonds Settlement was satisfied by the issuance of approximately 3,800 million shares of the Company at the par value of HK$0.50 each (the "Bonds Settlement Shares") (note 32).

With respect to the A Bonds, the Company agreed to procure the disposal of the Three Planned Sale Interests (as defined in note 29) in an orderly and expeditious manner before 31st December, 2005 for the purpose of raising funds to repay the A Bonds.

During the year, the Group disposed of its 62.625% equity interest in Furama Resort, Danang, Vietnam, being one of the Three Planned Sale Interests, to an independent third party for a consideration of US$16.8 million (equivalent to approximately HK$131 million) (the "Furama Resort Disposal"), further details of which are set out in note 21(a) to the financial statements.

As at 31st July, 2005, the Company redeemed the outstanding principal amount of the A Bonds. Further details on the movements in the A Bonds during the year are set out in note 29(ii) to the financial statements. The remaining two assets under the Three Planned Sale Interests remained unsold as at 31st July, 2005.

With respect to the B Bonds, Mr. Peter Lam, the Chairman, an executive director and a shareholder of the Company, granted to the bondholders a non-assignable right to put to him the Bonds Settlement Shares in two tranches with effect on 7th December, 2004 as follows:

(i) 1,000,600,000 Bonds Settlement Shares (the "First Tranche Shares") at HK$0.07 per share, exercisable during a period commencing from two months after the Completion and ending by the end of the third month after the Completion; and

(ii) 2,799,440,000 Bonds Settlement Shares (the "Second Tranche Shares") at HK$0.03 per share, exercisable during a period commencing on 1st November, 2005 and ending on 30th November, 2005.

2. CORPORATE UPDATE (continued)

Bonds Settlement (continued)

No B Bond bondholders exercised their rights to put to Mr. Peter Lam for the First Tranche Shares, and the rights lapsed on 6th March, 2005. With respect to the Second Tranche Shares, certain of the bondholders had transferred a total of 1,301,303,612 Bonds Settlement Shares during the year which reduced the B Bonds' outstanding principal balance by HK$32,567,000 to HK$37,492,000 as at 31st July, 2005. Further details on the movements in the B Bonds are set out in note 29(iii) to the financial statements.

eSun Settlement Agreement

On 18th October, 2004, upon the fulfilment of certain specific provisions set out in the eSun Settlement Agreement, a cash repayment of HK$20 million was made to GPEL.

Another HK$225 million was restructured into a five-year secured interest-bearing term loan due by the Group to GPEL (the "eSun Loan"). Further details and the terms of the eSun Loan are set out in note 22 to the financial statements.

The remaining balance of approximately HK$2,600 million related to the eSun Settlement Agreement was satisfied by the issuance of 5,200 million shares of the Company at the par value of HK$0.50 each (the "eSun Settlement Shares") (note 32), upon the completion of which the eSun Group became a 40.8% shareholder of the Company. Subsequent to the balance sheet date, the Group fully repaid the eSun Loan.

For the year ended 31st July, 2005, the Group incurred a loss arising from the Settlements of HK$1,484 million which comprised (i) an agreed premium of HK$257 million pursuant to the Bonds Settlement and (ii) an agreed premium of HK$1,345 million pursuant to the eSun Debt Settlement of which was partially offset by the write back of accrued overdue interest on the Debt of HK$118 million as such overdue interest was waived by eSun upon completion of the Settlements.

Bank and other borrowings

As at 31st July, 2004, all outstanding bank and other borrowings of the Group were repayable within the next twelve months from that date and were classified as current liabilities. After the Completion, the majority of these outstanding bank and other borrowings were either rescheduled or refinanced with longer repayment terms. Further details of the terms of the Group's outstanding bank and other borrowings as at 31st July, 2005 are set out in note 27 to the financial statements.

Following the Completion of the Settlements as described above, the Group turned around from a deficiency in asset position to a net asset position. As at 31st July, 2005 the Group had consolidated net assets (excluding minority interests) of HK$3,432 million (2004: consolidated deficiency in assets (excluding minority interests) of HK$468 million (restated)). In the wake of the successful rescheduling or refinancing of the Group's bank and other borrowings, the Group also turned around from a net current liability position of HK$5,670 million (restated) as at 31st July, 2004 to a net current asset position of HK$199 million as at 31st July, 2005. The directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due in the foreseeable future.

Notes to Financial Statements

31st July, 2005

3. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

The Group has resolved to early adopt all Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), in the financial year ended 31st July, 2005. All these early adopted HKFRSs are effective for accounting periods beginning on or after 1st January, 2005 for the preparation of these financial statements.

The following new and revised HKFRSs are relevant to the Group's financial statements and are adopted for the first time for the preparation of the current year's financial statements. In accordance with the relevant requirements under these HKFRSs where permitted, comparative amounts of the financial statements for the year ended 31st July, 2004 have been restated.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS-Int-15	Operating Leases - Incentives
HKAS-Int-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets
HK-Int 2	The Appropriate Policies for Hotel Properties
HK-Int 3	Revenue - Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Notes to Financial Statements

31st July, 2005

3. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

The adoption of HKASs 2, 7, 8, 10, 12 ,14, 18, 19, 21, 23, 27, 28, 33, 37, 38, 39 (Amendment), HKFRS 5, HK-Int 3 and HKAS-Int-15, has had no material impact on the Group's accounting policies, the methods of computation in the Group's consolidated financial statements and the presentation and disclosures of the consolidated financial statements. The effects of adoption of the relevant HKFRSs including the new accounting measurement and disclosure practices are summarised as follows:

(a) HKAS 16 - Property, Plant and Equipment and HK-Int 2 - The Appropriate Policies for Hotel Properties

In prior years, hotel properties were interests in land and buildings and their integral fixed plant which were collectively used in the operation of hotels, and were stated at cost less any impairment losses.

Upon the adoption of HKAS 16 and HK-Int 2, hotel properties are now stated at cost less accumulated depreciation and any impairment losses. This change in accounting policy has been applied restrospectively and the comparative amounts have been restated to conform to the new policy. The depreciation policy for hotel properties adopted by the Group is summarised in note 6 to the financial statements. The effects of the above changes on these financial statements and the new accounting policy for hotel properties are summarised in notes 4 and 6 to the financial statements, respectively.

(b) HKAS 17 - Leases and HK-Int 4 - Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17 and HK-Int 4, the Group's leasehold interests in land and buildings are separated into leasehold land and leasehold buildings. Leasehold land is classified as operating leases, because the title of the land is not expected to be passed to the Group by the end of the lease terms, and is reclassified from fixed assets to prepaid land lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the respective lease terms. When the lease payment cannot be allocated reliably between the land and buildings elements, the entire lease payment is included in the cost of land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the previously reported consolidated income statement and accumulated losses. The effects of the above changes on comparative amounts as at 31st July, 2004 and the new accounting policy for prepaid land lease payments are summarised in notes 4 and 6 to the financial statements, respectively.

Notes to Financial Statements

31st July, 2005

3. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKAS 32 and HKAS 39 - Financial Instruments

In prior years, the Group classified its equity securities and advances to investees intended to be held for a continuing strategic or long term purpose as long term investments. These long term investments were stated at cost less any impairment losses, on an individual investment basis. Short term investments of the Group were investments in equity securities held for trading purposes. Changes in fair value of a security were recognised in the income statement in the period in which they arise.

Upon the adoption of HKASs 32 and 39, the Group's long term investments and short term investments were redesignated as available-for-sale investments and financial assets at fair value through profit or loss, where appropriate, with effect on 1st August, 2004.

Long term investments are those non-derivative investments in equity securities and advances to investees that are designated as available-for-sale investments or they are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of or until the investments are determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The measurement of financial assets at fair value through profit or loss is similar to those previously classified as short term investments with changes in fair value being recognised in the income statement.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. Further details of the effects of the above changes on these consolidated financial statements and the change in accounting policy are summarised in notes 4 and 6 to the consolidated financial statements, respectively. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(d) HKAS 40 - Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The change in accounting policy has been adopted retrospectively. The comparative amounts for the year ended 31st July, 2004 have been restated to conform to the new policy. The effects of the above changes on these consolidated financial statements and the new accounting policy for investment properties are summarised in notes 4 and 6 to the financial statements, respectively.

Notes to Financial Statements

31st July, 2005

3. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(e) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior years, goodwill arising on acquisitions prior to the adoption of SSAP 30 "Business combinations" in 2001 was eliminated against the consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions after the adoption of SSAP 30 in 2001 was capitalised and amortised on the straight-line basis over its estimated useful life, and was subject to impairment testing when there was an indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36 in the current year, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired) with the impairment loss being recognised in the income statement of the period. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill at 1st August, 2004. Goodwill previously eliminated against the consolidated reserves continues to remain eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes do not have any material effect on the consolidated financial statements. In accordance with the transitional provisions, HKFRS 3 is prospectively applied, and accordingly, comparative amounts have not been restated. HKFRS 3 shall apply to accounting for business combinations for which the agreement date is on or after 1st January, 2005. The new accounting policies for business combinations and impairment of assets are disclosed in note 6 to the financial statements.

(f) HKAS-Int-21 - Income Taxes - Recovery of Revalued Non-Depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rates that would be applicable upon the sale of the investment properties.

Upon the adoption of HKAS-Int-21, deferred tax arising on the revaluation of the Group's investment properties is determined on the basis that these properties will be recovered through use. Accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The change in the accounting policy has been applied retrospectively from the earliest period presented and the comparative amounts have been restated. Further details of the effects of the above changes are summarised in note 4 to the financial statements.

Notes to Financial Statements

31st July, 2005

3. EARLY ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

(g) HKAS 1 - Presentation of Financial Statements

HKAS 1 affects certain presentation in the consolidated financial statements, including the following:

- taxes of associates attributable to the Group, which were previously included in tax charge in the consolidated income statement, are now included in the share of profits and losses of associates;
- minority interests are now presented in the income statement and within the equity in the consolidated balance sheet separately from the results/equity attributable to equity holders of the parent; and
- the Group is no longer permitted not to disclose comparative information for the reconciliation of movements in property, plant and equipment.

(h) HKAS 24 - Related Party Disclosures

HKAS 24 affects the identification of related parties and requires more extensive disclosures for related party transactions.

For those HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006, they have not been early adopted by the Group. The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operations and financial position.

4. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES

Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current year's and prior years' amounts presented), the Group has restated the opening balances of total equity as at 1st August, 2004 to take into account the effects of changes in the accounting policies disclosed in note 3 to the financial statements. The previously reported loss for the year ended 31st July, 2004 has also been restated. The amount of adjustment for each financial statement line item affected and the impact on the basic earnings per share are summarised as follows:

(a) Consolidated income statement

	Impact of new HKFRSs on the Company and its subsidiaries						Impact of new HKFRSs on share of profits and losses of associates	
	HKAS 1 HK$'000	HKAS 16 HK$'000	HKAS 17 HK$'000	HKAS 39 HK$'000	HKAS 40 HK$'000	HKAS-Int-21 HK$'000	HK$'000	Total HK$'000
For the year ended 31st July, 2005								
Increase in other operating expenses	—	(35,330)	(1,010)	—	—	—	—	(36,340)
Increase in revaluation surplus on investment properties	—	—	—	—	599,549	—	—	599,549
Increase in reversal of impairment of property, plant and equipment	—	8,108	—	—	—	—	—	8,108
Decrease in loss on disposal of subsidiaries	—	1,525	3,061	—	—	—	—	4,586
Decrease in loss on deemed disposal of an associate	—	—	—	—	—	—	1,728	1,728
Increase/(decrease) in share of profits and losses of associates	(39,537)	—	—	—	—	—	3,630	(35,907)
Decrease/(increase) in tax	39,537	1,901	—	—	—	(106,818)	—	(65,380)
Decrease/(increase) in loss for the year	—	(23,796)	2,051	—	599,549	(106,818)	5,358	476,344
Decrease/(increase) in loss attributable to equity holders of the parent	—	(15,692)	2,388	—	599,549	(106,818)	5,358	484,785
Decrease in profit attributable to minority interests	—	(8,104)	(337)	—	—	—	—	(8,441)
	—	(23,796)	2,051	—	599,549	(106,818)	5,358	476,344
Increase/(decrease) in basic earnings/(loss) per share (HK$)	—	—	—	—	0.06	(0.01)	—	0.05

Notes to Financial Statements

31st July, 2005

4. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES (continued)

(a) Consolidated income statement (continued)

	Impact of new HKFRSs on the Company and its subsidiaries						Impact of new HKFRSs on share of profits and losses of associates	
	HKAS 1	HKAS 16	HKAS 17	HKAS 39	HKAS 40	HKAS-Int-21		Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31st July, 2004								
Decrease in cost of sales	—	—	—	—	261,312	—	—	261,312
Increase in other operating expenses	—	(50,202)	(1,055)	—	—	(4,809)	—	(56,066)
Increase in revaluation surplus on investment properties	—	—	—	—	258,779	—	—	258,779
Increase in reversal of impairment of property, plant and equipment	—	19,319	—	—	—	—	—	19,319
Decrease in release of goodwill upon disposal of an investment property	—	—	—	—	—	(182,962)	—	(182,962)
Increase/(decrease) in gain on disposal of subsidiaries	—	12,014	—	—	(28,640)	6,504	—	(10,122)
Decrease in share of profits and losses of associates	(1,333)	—	—	—	—	—	—	(1,333)
Decrease in tax	1,333	1,902	—	—	—	121,239	—	124,474
Increase/(decrease) in profit for the year	—	(16,967)	(1,055)	—	491,451	(60,028)	—	413,401
Increase/(decrease) in profit attributable to:								
Equity holders of the parent	—	(9,964)	(711)	—	491,451	(60,028)	—	420,748
Minority interests	—	(7,003)	(344)	—	—	—	—	(7,347)
	—	(16,967)	(1,055)	—	491,451	(60,028)	—	413,401
Increase/(decrease) in basic earnings per share (HK$)	—	—	—	—	0.13	(0.02)	—	0.11

Notes to Financial Statements

31st July, 2005

4. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES (continued)

(b) Consolidated balance sheet

	Impact of new HKFRSs on the Company and its subsidiaries						Impact of new HKFRSs on interests	
	HKAS 1	HKAS 16	HKAS 17	HKAS 39	HKAS 40	HKAS-Int-21	in associates	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31st July, 2005								
Decrease in property, plant and equipment	—	(36,461)	(18,350)	—	—	—	—	(54,811)
Increase in prepaid land lease payments	—	—	14,550	—	—	—	—	14,550
Increase/(decrease) in interests in associates	—	(12,014)	—	—	—	1,510	(81,422)	(91,926)
Increase in available-for-sale investments	—	—	—	93,000	—	—	—	93,000
Less:								
Decrease/(increase) in deferred tax liabilities	—	16,762	—	—	—	(448,792)	—	(432,030)
Increase/(decrease) in net assets	—	(31,713)	(3,800)	93,000	—	(447,282)	(81,422)	(471,217)
Total equity								
Decrease in investment property revaluation reserve	—	—	—	—	(2,337,358)	—	(104,009)	(2,441,367)
Increase in investment revaluation reserve	—	—	—	93,000	—	—	17,229	110,229
Decrease/(increase) in accumulated losses	—	(23,230)	(1,937)	—	2,337,358	(447,282)	5,358	1,870,267
Decrease in minority interests	—	(8,483)	(1,863)	—	—	—	—	(10,346)
Increase/(decrease) in equity	—	(31,713)	(3,800)	93,000	—	(447,282)	(81,422)	(471,217)

Notes to Financial Statements

31st July, 2005

4. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES (continued)

(b) Consolidated balance sheet (continued)

	Impact of new HKFRSs on the Company and its subsidiaries						Impact of new HKFRSs on interests in associates	Total
	HKAS 1 HK$'000	HKAS 16 HK$'000	HKAS 17 HK$'000	HKAS 39 HK$'000	HKAS 40 HK$'000	HKAS-Int-21 HK$'000	HK$'000	HK$'000
As at 31st July, 2004 and 1st August, 2004								
Decrease in property, plant and equipment	—	(11,066)	(36,370)	—	—	—	—	(47,436)
Increase in prepaid land lease payments	—	—	29,915	—	—	—	—	29,915
Increase/(decrease) in interests in associates	—	(12,014)	—	—	—	1,510	—	(10,504)
Less:								
Decrease/(increase) in deferred tax liabilities	—	14,861	—	—	—	(341,974)	—	(327,113)
Decrease in net assets	—	(8,219)	(6,455)	—	—	(340,464)	—	(355,138)
Total equity								
Decrease in investment property revaluation reserve	—	—	—	—	(1,737,809)	—	—	(1,737,809)
Decrease/(increase) in accumulated losses	—	(7,538)	(4,325)	—	1,737,809	(340,464)	—	1,385,482
Decrease in minority interests	—	(681)	(2,130)	—	—	—	—	(2,811)
Decrease in equity	—	(8,219)	(6,455)	—	—	(340,464)	—	(355,138)

4. SUMMARY OF THE EFFECTS OF CHANGES IN THE ACCOUNTING POLICIES (continued)

(b) Consolidated balance sheet (continued)

	Impact of new HKFRSs on the Company and its subsidiaries						Impact of new HKFRSs on interests in associates	Total
	HKAS 1	HKAS 16	HKAS 17	HKAS 39	HKAS 40	HKAS-Int-21		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31st July, 2003 and 1st August, 2003								
Decrease in property, plant and equipment	—	(4,211)	(36,370)	—	—	—	—	(40,581)
Increase in prepaid land lease payments	—	—	30,970	—	—	—	—	30,970
Increase in goodwill arising from acquisition of subsidiaries	—	—	—	—	—	92,980	—	92,980
Less:								
Decrease/(increase) in deferred tax liabilities	—	12,959	—	—	—	(556,378)	—	(543,419)
Increase/(decrease) in net assets	—	8,748	(5,400)	—	—	(463,398)	—	(460,050)
Total equity								
Decrease in investment property revaluation reserve	—	—	—	—	(1,246,358)	—	—	(1,246,358)
Decrease/(increase) in accumulated losses	—	2,426	(3,614)	—	1,246,358	(463,398)	—	781,772
Increase in minority interests	—	6,322	(1,786)	—	—	—	—	4,536
Increase/(decrease) in equity	—	8,748	(5,400)	—	—	(463,398)	—	(460,050)

Notes to Financial Statements

31st July, 2005

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could material affect the net present value used in the impairment test.

Income tax

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

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

Estimation uncertainty

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties and available-for-sale investments

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

Impairment test of assets and goodwill

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and available-for-sale investments that have been measured at fair value, 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, 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent interests of outside shareholders in the results and net assets of the Company's subsidiaries and are presented separately in the income statement and within equity in the consolidated balance sheet from the results/equity attributable to equity holders of the parent.

Subsidiaries

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

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

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

As detailed in note 2 to the financial statements, the issue of eSun Settlement Shares by the Company resulted in a cross holding between the Group and eSun. Therefore, the Group's share of results in eSun for the year and subsequent accounting periods also includes the results of the Group which are shared by eSun while equity accounting for the Group's results. Appropriate elimination is made by the Group while accounting for the crossholding.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any accumulated impairment losses.

The accounting policies of the Group's associates conform to those used by the Group for like transactions and events in similar circumstances.

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

Business combinations

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates is initially measured at cost, being the excess of the cost of the business combination over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions after 1st August, 2004 is not amortised and goodwill already carried in the consolidated balance sheet as at 1st August, 2004 is not amortised after that date. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Goodwill (continued)

As at the acquisition date, any goodwill acquired in a business combination is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement.

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

Goodwill previously eliminated against the consolidated reserves

Goodwill arising on acquisitions before 1st January, 2001 was eliminated against the consolidated reserves in the year of acquisition. The Group applied the transitional provisions of the HKFRS 3 that permitted such goodwill to remain eliminated against the consolidated reserves and that required such goodwill not to be recognised in the consolidated income statement when the Group disposes of all or part of the business to which that goodwill relates, or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets

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

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

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income 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. An impairment loss made against goodwill is not reversed.

Fixed assets and depreciation

Hotel properties

Hotel properties are interests in hotel buildings and their integral fixed plant which are collectively used in the operation of hotels. Following initial recognition at cost, hotel properties are carried at cost less accumulated depreciation and any accumulated impairment losses. The related repairs and maintenance attributable to hotel properties are charged to the income statement in the year in which they are incurred. The costs of significant improvements are capitalised.

Depreciation of hotel properties is calculated on the straight-line basis to write off the cost of the hotel property over the remaining lease terms.

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any accumulated 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 income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of other fixed assets 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 buildings	Over the remaining lease terms
Leasehold improvements	20.0%
Furniture, fixtures and equipment	10.0% - 20.0%
Motor vehicles	10.0% - 25.0%
Computers	10.0% - 25.0%
Motor vessels	25.0%

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Notes to Financial Statements

31st July, 2005

6. 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 owned by the Group or held by the Group under finance leases to earn rentals or for capital appreciation or both. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations preformed at the end of each financial year. Changes in the fair values of investment properties are recognised in the income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of investment property, calculated as the differences between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

Prepaid land lease payments

Prepaid land lease payments are lump sum upfront payments to acquire long-term interest in lessee-occupied properties.

Prepaid land lease payments for land relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the income statement. Prepaid land lease payments relating to investment properties and properties developed for sale are not amortised and are included as part of the cost of such properties.

Properties under development

Properties under development are stated at cost less any accumulated impairment losses. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period.

Completed properties for sale

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified into four categories including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, reconsiders this designation at each financial year end.

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets in equity securities and advances to investees that are designated as available-for-sale investments or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models. For investments where there is no active market and whose values cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost and the relevant impairment losses shall not be reversed.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets (the "loss events"). Where the loss event has an impact on the estimated future cash flows that can be reliably estimated, the investment is stated at cost less any accumulated impairment losses. If an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less an impairment loss previously recognised in profit or loss, is transferred from equity to the income statement.

If the fair value of an available-for-sale debt investment increases in the subsequent periods, and the increase can be objectively related to an event occurring after the loss was recognised in the income statement, the impairment loss shall be reversed and recognised in the income statement. However, in case of equity investments, impairments cannot be reversed through the income statement.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments *(applicable to the accounting year ended 31st July, 2004)*

Long term investments in 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 the 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 impairment is charged to the income statement in the period in which it arises. When the circumstances and events which led to the impairment in value ceases to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost for food, beverages, cutlery, linen and supplies used in hotel and restaurant operations is determined on the first-in, first-out basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Debtors

Debtors are recognised and carried at original invoice amount less allowance for any uncollectible amounts.

An estimate for doubtful debts for debtors is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Bank and other borrowings

All banks and other borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowings. After its initial recognition, bank and other borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

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

Provisions

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

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

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, which are not restricted as to use.

Income tax

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

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 the initial recognition of an asset or liability 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 and associates, 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.

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 future 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 the initial recognition of an asset or liability 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 and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future 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 future 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 future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 developed for sale, upon the establishment of a binding contract in respect of sale of properties, and the issue of an occupation permit by the government of the Hong Kong Special Administrative Region or a completion certificate by the relevant government authorities, whichever is later;

(b) from the sale of investment properties, when all the conditions of a sale have been met and the risks and rewards of ownership have been transferred to the buyer;

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

(d) from hotel and restaurant operations and other related service income, in the period in which such services are rendered;

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

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

Operating leases

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

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the income statement in the period in which they are incurred.

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are not Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries 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.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Notes to Financial Statements

31st July, 2005

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance and defined contribution retirement schemes (the "Contribution Schemes") for those employees who are eligible to participate in the respective schemes during the year. The assets of the schemes are held separately from those of the Group in the respective independently administered funds. Contributions to the MPF Scheme and the Contribution Schemes are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the respective schemes. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, while under the Contribution Schemes, when an employee leaves the scheme prior to his/her interest in the Group's contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

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

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with the Group;

(ii) has an interest in the Group that gives it significant influence over the Group; or

(iii) has joint control over the Group;

(b) the party is a joint venture in which the entity is a venturer;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Company;

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

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

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

Notes to Financial Statements

31st July, 2005

7. SEGMENT INFORMATION

(a) Business segments

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

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)
Segment revenue:												
Sales to external customers	3,626	3,762	246,717	1,569,506	515,384	514,834	23,072	21,411	—	—	788,799	2,109,513
Intersegment sales	—	—	8,555	6,464	—	655	22,020	26,645	(30,575)	(33,764)	—	—
Other revenue	—	—	897	3,115	788	3,195	490	3,804	—	—	2,175	10,114
Total	3,626	3,762	256,169	1,579,085	516,172	518,684	45,582	51,860	(30,575)	(33,764)	790,974	2,119,627
Segment results	1,229	(927)	785,667	404,925	268,983	196,464	9,654	13,885	—	—	1,065,533	614,347
Interest income and unallocated gains											10,381	9,105
Unallocated expenses											(113,945)	(104,943)
Reversal of impairment of available-for-sale debt instruments											209,478	33,772
Profit from operating activities											1,171,447	552,281
Finance costs											(115,048)	(351,362)
Loss arising from the Settlements, net											(1,483,527)	—
Provision for contingent liabilities to bondholders											(136,525)	—
Gain on cancellation of bond payables											32,567	—
Share of profits and losses of associates	166,973	17,643	27,841	—	3,734	—	—	—	—	—	198,548	17,643
Share of profits and losses of associates - unallocated											(29,158)	(12,380)
Reversal of impairment of associates	—	23,617	5,396	—	—	—	—	—	—	—	5,396	23,617
Impairment of associates - unallocated											(1,031)	(436)
Loss on deemed disposal of an associate											(16,419)	—
Profit/(loss) before tax											(373,750)	229,363
Tax											(197,446)	198,979
Profit/(loss) for the year											(571,196)	428,342

Notes to Financial Statements

31st July, 2005

7. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000 (Restated)
Attributable to:												
Equity holders of the parent											(705,962)	381,435
Minority interests											134,766	46,907
											(571,196)	428,342
Segment assets	15,107	11,145	3,828,852	3,172,151	1,520,442	1,517,122	47,482	56,442	—	—	5,411,883	4,756,860
Interests in associates	314,625	211,788	78,466	48,159	90,976	89,708	—	—	—	—	484,067	349,655
Interests in associates - unallocated											536,013	793,167
Unallocated assets											941,173	842,383
Total assets											7,373,136	6,742,065
Segment liabilities	56	71	71,301	67,129	57,446	80,711	4,405	3,498	—	—	133,208	151,409
Interest-bearing bank and other borrowings											2,688,744	2,291,733
Provision for premium on bonds redemption											—	612,390
Provision for premium on loan repayment											—	32,396
Bonds payable											40,152	621,671
Convertible bonds payable											—	906,750
Amount due to an associate											—	1,500,040
Other unallocated liabilities											712,871	704,392
Total liabilities											3,574,975	6,820,781

Notes to Financial Statements

31st July, 2005

7. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)	2005 HK$'000	2004 HK$'000 (Restated)
Other segment information:												
Amortisation of prepaid land lease payments	—	—	—	—	1,010	1,055	—	—	—	—	1,010	1,055
Depreciation	—	—	22	—	58,132	76,182	89	80	—	—	58,243	76,262
Unallocated amounts											5,655	8,957
											63,898	85,219
Capital expenditure	37	24	1,355	7,291	9,934	22,245	267	123	—	—	11,593	29,683
Unallocated amounts											494	530
											12,087	30,213
Amortisation of goodwill	—	—	—	—	—	6,526	—	—	—	—	—	6,526
Impairment of goodwill	—	—	—	—	2,289	—	—	—	—	—	2,289	—
(Gain)/loss on disposal of subsidiaries	—	—	—	829	7,752	(53,012)	—	—	—	—	7,752	(52,183)
Reversal of impairment of property, plant and equipment	—	—	—	—	(176,396)	(95,803)	—	—	—	—	(176,396)	(95,803)
Loss on disposal of investment properties	—	—	—	20,000	—	—	—	—	—	—	—	20,000
Reversal of goodwill upon disposal of an investment property	—	—	—	32,979	—	—	—	—	—	—	—	32,979
Gains on revaluation of investment properties	—	—	(599,549)	(258,779)	—	—	—	—	—	—	(599,549)	(258,779)

7. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and asset and certain expenditure information for the Group's geographical segments:

	Hong Kong		Mainland China		Vietnam		Other locations		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Segment revenue:												
Sales to external customers	**569,961**	1,947,200	**—**	—	**218,838**	162,313	**—**	—	**—**	—	**788,799**	2,109,513
Other revenue	**1,747**	10,070	**—**	—	**428**	44	**—**	—	**—**	—	**2,175**	10,114
Total	**571,708**	1,957,270	**—**	—	**219,266**	162,357	**—**	—	**—**	—	**790,974**	2,119,627
Other segment information:												
Segment assets	**4,998,507**	4,354,318	**6,474**	6,371	**406,888**	396,157	**14**	14	**—**	—	**5,411,883**	4,756,860
Capital expenditure	**8,831**	17,079	**—**	—	**3,256**	13,134	**—**	—	**—**	—	**12,087**	30,213

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions and balances detailed elsewhere in the financial statements, the Group entered into the following material transactions with related parties during the year.

(a) Transactions with related parties

		Group	
		2005	2004
	Notes	**HK$'000**	HK$'000
Rental income and building management fee received from related companies	(i)	**3,942**	4,823
Rental income and building management fee received from an associate of eSun	(ii)	**1,168**	—
Interest expenses to GPEL	(iii)	**6,547**	83,800
Acquisition of a subsidiary from the eSun Group	(iv)	**—**	10,300

Notes:

(i) Rental income and building management fee received from related companies, of which certain directors of the Company are also the directors of these related companies, was based on terms stated in the respective lease agreement.

(ii) Rental income and building management fee received from an associate of eSun was based on terms stated in the lease agreement.

(iii) The terms of interest paid or payable to GPEL, a subsidiary of eSun, are detailed in note 22 to the financial statements.

(iv) The consideration for the acquisition was determined with reference to a discounted cash flow based on the future management fee income generated from the unexpired term of the hotel management contract held by that subsidiary, the details of which are set out in note 36(b) to the financial statements.

Notes to Financial Statements

31st July, 2005

8. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

During the year, the eSun Group, an associate of the Group, also provided marketing and advertising services to an associate of the Group amounted to HK$6,608,000 (2004: Nil) which was determined with reference to the market prices charged to the major customers of the eSun Group.

(b) Compensation of key management personnel of the Group

	Group	
	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**13,870**	19,710
Post-employment benefits	**290**	290
Total compensation paid to key management personnel	**14,160**	20,000

9. TURNOVER AND OTHER REVENUE

Turnover comprises the proceeds from the sale of properties and investment properties, rental income, and income from hotel, restaurant and other operations. Revenue from the following activities has been included in turnover.

An analysis of turnover and other revenue is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Turnover		
Sale of properties and investment properties	**3,626**	1,293,262
Property rentals	**246,717**	280,006
Hotel, restaurant and other operations	**538,456**	536,245
	788,799	2,109,513
Other revenue		
Interest income from bank deposits	**3,608**	2,046
Other interest income	**2,144**	2,353
Dividend income from available-for-sale unlisted equity investments	**671**	277
Participation income	—	3,796
Net return on pension scheme assets	—	1,863
Others	**6,133**	8,884
	12,556	19,219

Notes to Financial Statements

31st July, 2005

10. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Depreciation#	16	**63,898**	85,219
Amortisation of prepaid land lease payments**	17	**1,010**	1,055
Staff costs:			
Wages and salaries (including directors' remuneration - note 12)		**187,506**	213,537
Pension scheme contributions*		**5,681**	9,021
Net return on pension scheme assets		**—**	(1,863)
		5,681	7,158
Auditors' remuneration		**1,800**	1,460
Loss on disposal of property, plant and equipment**		**271**	175
Loss on disposal of investment properties		**—**	20,000
Amortisation of goodwill**	20	**—**	6,526
Impairment of goodwill**	20	**2,289**	—
Provision for/(reversal of provision for) doubtful debts**		**(650)**	1,984
Write off of bad debts**		**1,756**	1,587
Minimum lease payments under operating leases in respect of leasehold buildings		**1,971**	3,759
Unrealised loss on revaluation of financial assets at fair value through profit or loss, net		**167**	864
Rental income		**(246,717)**	(280,006)
Less: Outgoings		**46,028**	48,919
Net rental income		**(200,689)**	(231,087)
Foreign exchange (gains)/losses, net		**848**	(1,106)

Depreciation charge of HK$59,380,000 (2004: HK$77,376,000 (restated)) for property, plant and equipment is included in "other operating expenses" on the face of the consolidated income statement.

* At 31st July, 2004, no forfeited contributions from the Contribution Schemes were available to the Group to reduce its contributions to the Contribution Schemes in future years. The Contribution Schemes were terminated in the last year.

** These items are included in "other operating expenses" on the face of the consolidated income statement.

Notes to Financial Statements

31st July, 2005

11. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**88,468**	124,074
Interest on bank borrowings wholly repayable beyond five years	**1,059**	—
Interest on an amount due to GPEL	**6,547**	83,800
Interest on bonds payable	**—**	35,234
Interest on convertible bonds	**—**	50,398
Total interest expenses	**96,074**	293,506
Other finance costs:		
Provision for premium on loan repayment – note 28	**1,979**	5,521
Bank charges and refinancing charges	**16,995**	52,335
	115,048	351,362

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) 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 2005 HK$'000	Group 2004 HK$'000
Fee	**320**	260
Other emoluments:		
Salaries, allowances and benefits in kind	**13,550**	19,450
Pension scheme contributions	**290**	290
	14,160	20,000

12. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

The remuneration of individual director is set out below:

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contribution HK$'000	Total emoluments HK$'000
2005				
Executive and non-executive directors:				
Lim Por Yen	—	—	—	—
Lam Kin Ngok, Peter	—	7,988	12	8,000
Lau Shu Yan, Julius	—	2,740	137	2,877
Wu Shiu Kee, Keith	—	2,822	141	2,963
Lam Kin Ming	—	—	—	—
U Po Chu	—	—	—	—
Chiu Wai	—	—	—	—
Shiu Kai Wah	—	—	—	—
Independent non-executive directors:				
David Tang	200	—	—	200
Lam Bing Kwan	60	—	—	60
Leung Shu Yin, William	60	—	—	60
	320	13,550	290	14,160

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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

Notes to Financial Statements

31st July, 2005

12. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

(b) Employees' remuneration

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 12(a) above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,896**	4,872
Pension scheme contributions	**236**	236
	5,132	5,108

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

	Number of employees	
	2005	2004
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	1
	2	2

Notes to Financial Statements

31st July, 2005

13. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Provision for tax for the year:		
Current - Hong Kong	**7,719**	16,463
Deferred tax - note 31	**190,494**	(126,881)
	198,213	(110,418)
Prior years' overprovision - Hong Kong	**(767)**	(88,561)#
Tax charge/(credit) for the year	**197,446**	(198,979)

\# Included in the prior years' overprovision was a sum of HK$82,234,000 which represented the reversal of certain profits tax provision made by the Company in respect of certain contentious items arising in prior years. In the prior year, the Company reached an agreement with the Inland Revenue Department on the amount of the profits tax in respect of these contentious items.

In accordance with the presentation requirements of HKAS 1, adopted by the Group during the year as detailed in note 3 to the financial statements, taxes of associates that amounted to HK$39,537,000 is now included in "share of profits and losses of associates" on the face of the consolidated income statement. The comparative amounts of the tax charge of HK$1,333,000 for the year ended 31st July, 2004 have been restated to conform to the current year's presentation.

Notes to Financial Statements

31st July, 2005

13. TAX (continued)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rate for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000 (Restated)
Profit/(loss) before tax	**(373,750)**	229,363
Share of profits and losses of associates	**(169,390)**	(5,263)
Profit/(loss) before tax attributable to the Company and its subsidiaries	**(543,140)**	224,100
Tax at the statutory tax rate of 17.5% (2004: 17.5%)	**(95,050)**	39,218
Higher tax rate for other countries	**1,103**	562
Adjustments in respect of current tax of previous periods	**(767)**	(88,561)
Adjustments in respect of deferred tax of previous periods	**—**	(148,892)
Income not subject to tax	**(54,268)**	(38,368)
Expenses not deductible for tax purpose	**399,932**	54,365
Tax losses utilised from previous periods	**(53,504)**	(17,303)
Tax charge/(credit) at the Group's effective rate	**197,446**	(198,979)

14. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Loss for the year ended 31st July, 2005 attributable to equity holders of the parent dealt with in the financial statements of the Company was HK$1,645,507,000 (2004: profit for the year of HK$261,480,000 (restated)) (note 33(b)).

15. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to equity holders of the parent of HK$705,962,000 (2004: profit for the year attributable to equity holders of HK$381,435,000 (restated)) and the weighted average number of 9,589,864,000 (2004: 3,746,002,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the year ended 31st July, 2005 and 2004 have not been disclosed, as no diluting event existed during these years.

Notes to Financial Statements

31st July, 2005

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Hotel properties HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Total HK$'000
Cost:									
At 1st August, 2003									
As previously reported		2,254,965	39,400	59,207	351,507	22,733	11,334	32,809	2,771,955
Effect of adopting HKAS 17	4	(36,370)	—	—	—	—	—	—	(36,370)
As restated		2,218,595	39,400	59,207	351,507	22,733	11,334	32,809	2,735,585
Additions		—	—	1,329	20,087	389	1,009	84	22,898
Disposals/write-off		—	(1,500)	(11,600)	(18,190)	(1,809)	(366)	—	(33,465)
Arising from disposal of subsidiaries	36(c)	(519,262)	—	(24)	(36,226)	(42)	(559)	—	(556,113)
Exchange realignments		512	—	1	110	12	1	—	636
At 31st July, 2004		1,699,845	37,900	48,913	317,288	21,283	11,419	32,893	2,169,541
At 1st August, 2004									
As previously reported		1,736,215	37,900	48,913	317,288	21,283	11,419	32,893	2,205,911
Effect of adopting HKAS 17	4	(36,370)	—	—	—	—	—	—	(36,370)
As restated		1,699,845	37,900	48,913	317,288	21,283	11,419	32,893	2,169,541
Additions		248	—	522	9,232	—	764	112	10,878
Disposals/write-off		—	(7,147)	(450)	(3,498)	—	(312)	—	(11,407)
Arising from disposal of subsidiaries	36(c)	(150,269)	—	(27)	(101,988)	(2,351)	—	—	(254,635)
Transfers		(3,550)	3,550	—	—	—	—	—	—
Exchange realignments		—	—	—	—	16	—	—	16
At 31st July, 2005		1,546,274	34,303	48,958	221,034	18,948	11,871	33,005	1,914,393

Notes to Financial Statements

31st July, 2005

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Notes	Hotel properties HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Total HK$'000
Accumulated depreciation and impairment:									
At 1st August, 2003									
As previously reported		611,987	10,934	38,397	217,662	15,139	7,549	32,634	934,302
Effect of adopting HKAS 16	4	4,211	—	—	—	—	—	—	4,211
As restated		616,198	10,934	38,397	217,662	15,139	7,549	32,634	938,513
Depreciation provided for the year (restated)	10	50,202	1,999	6,570	21,480	3,748	1,140	80	85,219
Disposals/write-off		—	(1,500)	(11,426)	(18,133)	(1,496)	(303)	—	(32,858)
Arising from disposal of subsidiaries (restated)	36(c)	(24,028)	—	—	(5,045)	(16)	(158)	—	(29,247)
Reversal of impairment (restated)		(95,803)	—	—	—	—	—	—	(95,803)
Exchange realignments		—	—	—	80	10	—	—	90
At 31st July, 2004		546,569	11,433	33,541	216,044	17,385	8,228	32,714	865,914
At 1st August, 2004									
As previously reported		535,503	11,433	33,541	216,044	17,385	8,228	32,714	854,848
Effect of adopting HKAS 16	4	11,066	—	—	—	—	—	—	11,066
As restated		546,569	11,433	33,541	216,044	17,385	8,228	32,714	865,914
Depreciation provided for the year	10	35,330	3,050	4,712	18,297	1,402	998	109	63,898
Disposals/write-off		—	(7,147)	(450)	(1,317)	—	(217)	—	(9,131)
Arising from disposal of subsidiaries	36(c)	(76,092)	—	—	(50,800)	(1,512)	—	—	(128,404)
Reversal of impairment		(176,396)	—	—	—	—	—	—	(176,396)
Exchange realignments		—	—	—	—	16	—	—	16
At 31st July, 2005		329,411	7,336	37,803	182,224	17,291	9,009	32,823	615,897
Net book value:									
At 31st July, 2005		1,216,863	26,967	11,155	38,810	1,657	2,862	182	1,298,496
At 31st July, 2004 (restated)		1,153,276	26,467	15,372	101,244	3,898	3,191	179	1,303,627

16. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31st July, 2005, the Group's hotel properties with a total carrying amount of HK$1,216,863,000 (2004: HK$946,988,000 (restated)) were pledged to banks to secure banking facilities granted to the Group.

At 31st July, 2005, certain leasehold buildings of the Group with a carrying amount of HK$24,243,000 (2004: HK$24,839,000) were pledged to a bank to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group.

The reversal of impairment provision of property, plant and equipment for both years arose from directors' assessment of the estimated realisable value of the relevant property, plant and equipment.

The Group's hotel properties and leasehold buildings included above are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK$'000	HK$'000	HK$'000
At cost:			
Medium term leases	1,192,790	357,034	1,549,824
Long term leases	30,753	—	30,753
	1,223,543	357,034	1,580,577

Notes to Financial Statements

31st July, 2005

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost:						
At 1st August, 2003	8,647	18,327	32,837	16,603	711	77,125
Additions	—	77	184	72	53	386
Disposals/write-off	(1,500)	(11,398)	(16,538)	(1,112)	—	(30,548)
At 31st July, 2004 and 1st August, 2004	7,147	7,006	16,483	15,563	764	46,963
Additions	—	—	208	—	150	358
Disposals/write-off	(7,147)	—	(204)	—	—	(7,351)
At 31st July, 2005	—	7,006	16,487	15,563	914	39,970
Accumulated depreciation:						
At 1st August, 2004	4,982	16,365	29,569	11,838	591	63,345
Depreciation provided for the year	1,306	1,892	1,311	3,229	105	7,843
Disposals/write-off	(1,500)	(11,398)	(16,538)	(1,011)	—	(30,447)
At 31st July, 2004 and 1st August, 2004	4,788	6,859	14,342	14,056	696	40,741
Depreciation provided for the year	2,359	49	1,127	909	74	4,518
Disposals/write-off	(7,147)	—	(204)	—	—	(7,351)
At 31st July, 2005	—	6,908	15,265	14,965	770	37,908
Net book value:						
At 31st July, 2005	—	98	1,222	598	144	2,062
At 31st July, 2004	2,359	147	2,141	1,507	68	6,222

The Company's leasehold buildings were situated in Hong Kong and were held under medium term leases.

Notes to Financial Statements

31st July, 2005

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Cost:		
At beginning of year		
As previously reported	**—**	—
Effect of adopting HKAS 17 - note 4	**36,370**	36,370
As restated	**36,370**	36,370
Arising from disposal of subsidiaries - note 36(c)	**(18,021)**	—
At end of year	**18,349**	36,370
Accumulated amortisation:		
At beginning of year		
As previously reported	**—**	—
Effect of adopting HKAS 17 - note 4	**6,455**	5,400
As restated	**6,455**	5,400
Amortised for the year	**1,010**	1,055
Arising from disposal of subsidiaries - note 36(c)	**(3,666)**	—
At end of year	**3,799**	6,455
Net book value:		
At end of year	**14,550**	29,915

Leasehold land of the Group as at 31st July, 2005 is held under medium term leases and is situated outside Hong Kong.

At 31st July, 2005, the Group's prepaid land lease payments with a carrying amount of HK$14,550,000 (2004: Nil) were pledged to bank to secure banking facilities granted to the Group (note 27).

Notes to Financial Statements

31st July, 2005

18. INVESTMENT PROPERTIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At beginning of year, at valuation	**3,207,980**	4,503,410	**2,201,200**	2,141,700
Additions, at cost	**1,171**	7,291	**1,171**	7,291
Arising from disposal of subsidiaries - note 36(c)	**—**	(252,000)	**—**	—
Disposals	**—**	(1,309,500)	**—**	(89,500)
Gains on revaluation	**599,549**	258,779	**389,229**	141,709
At end of year, at valuation	**3,808,700**	3,207,980	**2,591,600**	2,201,200

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long term leases	**1,210,000**	1,000,000	**—**	—
Medium term leases	**2,598,700**	2,207,980	**2,591,600**	2,201,200
	3,808,700	3,207,980	**2,591,600**	2,201,200

At 31st July, 2005, the investment properties were stated at their aggregate open market value of HK$3,808,700,000, based on their existing use with reference to a valuation performed by Chesterton Petty Limited, independent chartered surveyors, on 31st July, 2005.

All investment properties of the Group and the Company were leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK$3,798,000,000 (2004: HK$3,198,000,000) and HK$2,588,000,000 (2004: HK$2,198,000,000), respectively, were pledged to banks to secure banking facilities granted to the Group (note 27).

At 31st July, 2005, an investment property of the Group with a carrying amount of HK$3,600,000 (2004: HK$3,200,000) was pledged to a bank to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary and an associate of the Group.

Notes to Financial Statements

31st July, 2005

19. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**1,424**	1,400
Additions during the year	**38**	24
At end of year	**1,462**	1,424

Properties under development are held under medium term leases and are situated in Hong Kong.

20. GOODWILL

		Group
	Notes	HK$'000
Cost:		
At 1st August, 2003		
As previously reported		—
Effect of adopting HKAS-Int-21 - note 4	(a)	96,186
As restated		96,186
Arising from acquisition of subsidiaries - note 36(b)		10,300
Arising from disposal of subsidiaries - note 36(c)		(96,186)
At 31st July, 2004		10,300
At 1st August, 2004		
As previously reported		10,300
Effect of adopting HKFRS 3 - note 3(e)	(b)	(1,717)
As restated and at 31st July, 2005		8,583

Notes to Financial Statements

31st July, 2005

20. GOODWILL (continued)

	Notes	Group HK$'000
Accumulated amortisation and impairment:		
At 1st August, 2003		
As previously reported		—
Effect of adopting HKAS-Int-21 - note 4	(a)	3,206
As restated		3,206
Amortisation provided during the year - note 10		6,526
Arising from disposal of subsidiaries - note 36(c)		(8,015)
At 31st July, 2004		1,717
At 1st August, 2004		
As previously reported		1,717
Effect of adopting HKFRS 3 - note 3(e)	(b)	(1,717)
As restated and at 1st August, 2004		—
Impairment provided for the year - note 10	(c)	2,289
At 31st July, 2005		2,289
Net book value:		
At 31st July, 2005		6,294
At 31st July, 2004		8,583

Notes:

(a) The adoption of HKFRSs by a subsidiary of the Group has resulted in an increase in cost of goodwill arising from acquisition as at 1st August, 2003.

(b) As a result of the adoption of HKFRS 3 by the Group, accumulated amortisation for goodwill of HK$1,717,000 as at 1st August, 2004 has been eliminated with a corresponding decrease in the respective cost of goodwill at that date.

(c) At 31st July, 2005, the remaining amount of goodwill is relevant to the hotel management operation business unit of which the recoverable amount has been determined based on a value in use calculation using cash flow projections prepared with reference to the revised future management fee income budget approved by management covering the unexpired remaining term of the relevant hotel management contract. The discount rate applied to the cash flow projections is 11%.

Notes to Financial Statements

31st July, 2005

21. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	**1,167,416**	1,167,427
Amounts due from subsidiaries	**5,485,814**	5,023,230
Amounts due to subsidiaries	**(1,786,524)**	(5,874,483)
	4,866,706	316,174
Provision for impairment	**(3,359,486)**	(2,761,933)
	1,507,220	(2,445,759)

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for an amount due to a subsidiary of HK$670,453,000 as at 31st July, 2004 which bore interest at the prevailing market rate.

Particulars of the principal subsidiaries as at 31st July, 2005 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered and paid-up capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chains Caravelle Hotel Joint Venture Company Limited ("CCHJV")	Vietnam	US$16,326,000	*	—	26.01	Hotel operations
Diamond String Limited ("Diamond String")	Hong Kong	HK$10,000	Ordinary	—	65.00	Hotel and restaurant operations
Furama Hotel Enterprises Limited ("FHEL")	Hong Kong	HK$102,880,454	Ordinary	—	100.00	Investment holding
Gilroy Company Limited	Hong Kong	HK$10,000	Ordinary	100.00	—	Property investment
Glynhill Hotels and Resorts (Vietnam) Pte Ltd.	Vietnam	S$2	Ordinary	—	100.00	Provision of management and consultancy to hotel owners

Notes to Financial Statements

31st July, 2005

21. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered and paid-up capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kolot Property Services Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property management
Lai Sun International Finance (Cayman Islands) Limited	Cayman Islands/ Hong Kong	US$2	Ordinary	100.00	—	Bond issue
Lai Sun International Finance (1997) Limited	Cayman Islands/ Hong Kong	US$2	Ordinary	100.00	—	Bond issue
Lai Sun International Finance (2004A) Limited ("LSI (2004A)")	British Virgin Islands	US$1	Ordinary	100.00	—	Bond issue
Lai Sun International Finance (2004B) Limited ("LSI (2004B)")	Hong Kong	HK$2	Ordinary	100.00	—	Bond issue
Lai Sun Real Estate Agency Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property management and real estate agency
Peakflow Profits Limited ("Peakflow")	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Transformation International Limited ("TIL")	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Vutana Trading Investment (No. 2) Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	100.00	Investment holding

* This subsidiary has registered rather than issued share capital.

21. INTERESTS IN SUBSIDIARIES (continued)

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.

As at 31st July, 2005, the Group via Peakflow held a 10% equity interest in Bayshore Development Limited ("Bayshore"), the principal activity of which is property development. The entire interest in Peakflow was pledged to another shareholder of Bayshore to secure a loan facility granted to the Group (note 23).

Shares of certain other subsidiaries held by the Group were also pledged to banks to secure banking facilities granted to the Group (note 27).

(a) Disposal of Furama Resort

On 8th April, 2005, FHEL and TIL (collectively, the "Sellers"), both wholly-owned subsidiaries of the Group, entered into a sale and purchase agreement with an independent third party (the "Purchaser"), pursuant to which, the Sellers agreed to sell a 100% equity interest in Furama International Hoteliers Limited ("FIHL") to the Purchaser for a cash consideration of US$16.8 million (equivalent to approximately HK$131 million (note 36(c))).

The principal asset held by FIHL was its indirect 62.625% equity interest in the capital contribution of Indochina Beach Hotel Joint Venture Limited, which held and operated the Furama Resort, Danang, Vietnam. The Furama Resort Disposal constituted a discloseable transaction for the Company under the Listing Rules. The Furama Resort Disposal was completed on 8th July, 2005, further details of which are set out in note 36(c) to the financial statements. The cash consideration, after deducting the related expenses, was used for the repayment of the A Bonds (note 29(ii)).

(b) Disposal of Fortune Sign Venture Inc. ("Fortune Sign")

On 5th May, 2004, the Company entered into an agreement (the "Majestic Disposal Agreement") with an independent third party to dispose of (i) 5 ordinary shares of US$1 each in the capital of Fortune Sign, which represented 50% of its entire issued and paid-up capital; and (ii) 50% of all indebtedness owed by Fortune Sign to the Company (if any) (the "Majestic Disposal"), for a predetermined consideration of HK$185,000,000 (subject to adjustment). The Majestic Disposal constituted a major transaction under the Listing Rules. The Majestic Disposal was approved by the Company's shareholders at an extraordinary general meeting held on 30th June, 2004, and was completed on 31st July, 2004 for an adjusted consideration of HK$189,729,000 (note 36(c)). Upon the completion, the Group's remaining 50% interest in the Fortune Sign Group was equity accounted for as the Group's associate.

Notes to Financial Statements

31st July, 2005

22. INTERESTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Shares listed in Hong Kong, at cost	**—**	—	**—**	1,803,163
Unlisted shares, at cost	**—**	—	**342,579**	342,579
Share of net assets	**674,697**	510,813	**—**	—
Goodwill on acquisition	**44,086**	44,086	**—**	—
	718,783	554,899	**342,579**	2,145,742
Amounts due from associates	**683,255**	750,405	**203,068**	201,524
Amounts due to associates	**(228,420)**	(1,503,556)	**(3)**	(381)
	1,173,618	(198,252)	**545,644**	2,346,885
Provision for impairment	**(153,538)**	(158,966)	**(190,844)**	(1,097,352)
	1,020,080	(357,218)	**354,800**	1,249,533
Amount due to an associate classified as a current liability	**—**	1,500,040	**—**	—
	1,020,080	1,142,822	**354,800**	1,249,533
Market value of listed shares at the balance sheet date	**519,633**	85,654	**—**	76,240

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

The amounts due to associates are unsecured, interest-free and have no fixed terms of repayment except as further described below.

The amount due to an associate as at 31st July, 2004 included the Debt which bore interest at a rate of 5% per annum. The Debt was settled in full in accordance with the terms of the eSun Settlement Agreement during the current year, details of which are set out in note 2 to the financial statements.

Included in the amounts due to associates as at 31st July, 2005 was the eSun Loan of HK$225 million which bore interest at a rate of 4.5% per annum, and was repayable five years after 7th December, 2004. The eSun Loan was secured by a share of a limited recourse second charge over 6,500 shares of HK$100 each in Diamond String, which owns the Ritz-Carlton, Hong Kong (the "Ritz-Carlton Security") on a pari passu and pro rata basis with the Bondholders. The eSun Loan was fully repaid subsequent to the balance sheet date.

Notes to Financial Statements

31st July, 2005

22. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates as at 31st July, 2005 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Bushell Limited	Corporate	Hong Kong	Ordinary	50.00	Property development
East Asia Entertainment Limited	Corporate	Hong Kong	Ordinary	38.31	Entertainment activity production
East Asia Satellite Television Limited	Corporate	Hong Kong	Ordinary	38.31	Programme production, distribution and broadcasting
East Asia – Televisão Por Satélite, Limitada #	Corporate	Macau	Quota	38.31	Programme production, distribution and broadcasting
eSun Holdings Limited	Corporate	Bermuda/ Hong Kong	Ordinary	38.31	Investment holding
Fortune Sign Venture Inc. ("Fortune Sign")	Corporate	British Virgin Islands/ Hong Kong	Ordinary	50.00	Investment holding
Kippford Enterprises Limited ("Kippford")	Corporate	Hong Kong	Ordinary	50.00	Property development
Majestic Hotel Enterprises Limited	Corporate	Hong Kong	Ordinary	50.00	Hotel and restaurant operations
Majestic Centre Limited	Corporate	Hong Kong	Ordinary	50.00	Property investment
Modern Focus Limited	Corporate	Hong Kong	Ordinary	50.00	Property development

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

Notes to Financial Statements

31st July, 2005

22. INTERESTS IN ASSOCIATES (continued)

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.

The financial year end of the above associates are coterminous with that of the Group, except for the following material associates. eSun and its subsidiaries (collectively the "eSun Group") and Kippford which have a financial year ending 31st December, and Fortune Sign and its subsidiaries (collectively the "Fortune Sign Group") which have a financial year ending 31st March. The consolidated financial statements are adjusted for material transactions of these associates between their respective year end dates and 31st July.

As a result of the early adoption of the HKFRSs by the Group, the financial statements used the equity accounting for the share of associates are adjusted for the impacts of the early adoption of these HKFRSs to make the associates' accounting policies conform to those used by the Group for the like transactions. The effects of HKFRSs on the Group's equity accounting for the share of results and net asset value of associates are summarised in note 4 to the financial statements.

Certain of the Group's interests in associates have been pledged to secure a loan facility granted to the Group.

The following is a summary of aggregated amounts of assets, liabilities, revenues and profit or loss of the Group's associates:

	2005	2004
	HK$'000	HK$'000
Assets	**4,066,345**	3,764,875
Liabilities	**2,735,857**	3,128,659
Revenues	**926,222**	105,326
Profit/(loss)	**690,987**	(38,514)

eSun and its subsidiaries (collectively the "eSun Group")

Included in the Group's interests in associates at 31st July, 2005 is the Group's share of net assets of the eSun Group of HK$760,976,000.

At 30th June, 2005, the film rights held by the eSun Group amounted to HK$188,253,000 which represented all rights, titles and interests in 127 films (the "127 Film Rights") valued at HK$190,684,000 as at 31st December, 2004. The directors of eSun had engaged an independent third party (the "Valuer") to perform a valuation (the "Valuation") on the 127 Film Rights as at 31st December, 2004. Having regard to the Valuation performed by the Valuer and having regard to the current market conditions, the directors of eSun are of the opinion that there was no impairment on these film rights as at 30th June, 2005.

Notes to Financial Statements

31st July, 2005

22. INTERESTS IN ASSOCIATES (continued)

With respect to the financial statements of the eSun Group for the year ended 31st December, 2004, the auditors of eSun stated in their reports that:

(i) they had been unable to obtain sufficient reliable information to carry out the auditing procedures required by Statement of Auditing Standards 520 "Using the Work of an Expert", issued by HKICPA, to satisfy themselves as to (a) the competence and objectivity of the Valuer; and (b) the adequacy of the scope of the Valuer's work as to the 127 Film Rights. They stated that they were unable to obtain sufficient reliable information, or carry out alternative auditing procedures to satisfy themselves as to the appropriateness of the basis of computation of the amount of the amortisation charge for the Film Rights; and

(ii) with respect to the fundamental uncertainty relating to the going concern basis adopted in the presentation of the financial statements of the eSun Group for the year ended 31st December, 2004, the auditors of eSun considered that appropriate disclosures have been made in the financial statements of the eSun Group and their opinion was not qualified in this respect.

Due to the scope limitations in the evidence available to them in (i) above, the auditors of eSun issued a qualified opinion on the financial statements of the eSun Group for the year ended 31st December, 2004.

On 19th May, 2005, eSun issued 74 million new shares to an independent investor for a net proceeds of approximately HK$150 million and the Group's interests in eSun was reduced from 42.54% to 38.31%.

As extracted from note 1 "Basis of Presentation" of the unaudited interim report of eSun as of 30th June, 2005 published on 16th September, 2005, eSun stated that it will continue to seek ongoing support from its financial creditors, and to explore opportunities for different sources of financing to strengthen the eSun Group's working capital position including the negotiation for early repayment of the eSun Loan of HK$225 million by the Company. On the above bases, the directors of eSun consider that the eSun Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of eSun are satisfied that it is appropriate to prepare the unaudited condensed consolidated interim financial statements of eSun as at 30th June, 2005 on a going concern basis.

Notes to Financial Statements

31st July, 2005

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments, at fair value:				
Unlisted equity investments	**93,000**	—	**—**	—
Unlisted debt investments	**450,590**	480,165	**104,443**	134,018
	543,590	480,165	**104,443**	134,018
Provision for impairment	**—**	(209,251)	**—**	(104,000)
	543,590	270,914	**104,443**	30,018
Unlisted equity investments, at cost	**196,732**	202,132	**3,101**	8,101
Provision for impairment	**(180,574)**	(185,801)	**(3,000)**	(8,000)
	16,158	16,331	**101**	101
	559,748	287,245	**104,544**	30,119

Included in available-for-sale investments at fair value was an interest in Bayshore with an aggregate amount of HK$419,980,000, which has been pledged to Grand Design Development Limited, another shareholder of Bayshore, to secure a loan facility granted to the Group.

The impairment of available-for-sale debt investments in prior years arose from directors' assessment of the estimated realisable value of the underlying property development projects carried out by the investees with reference to the then prevailing market conditions.

Certain impairment provisions previously made against the available-for-sale debt investments were reversed and credited to the income statement during the year. The Group determined the value in use of these investments by using the present value of the estimated future cash flows expected to be generated by the underlying property development projects, including cash flows from their operations and the proceeds on the ultimate disposal of the underlying projects with reference to the prevailing property market conditions in Hong Kong as at 31st July, 2005 or reference to the market value of the underlying properties held by the investee companies.

24. COMPLETED PROPERTIES FOR SALE

The completed properties for sale are carried at fair value less costs to be incurred for disposal as at the balance sheet date.

25. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

(a) The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Hotel and restaurant charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements.

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Trade debtors:		
Less than 30 days	**22,456**	24,037
31 - 60 days	**4,370**	3,468
61 - 90 days	**1,506**	1,156
Over 90 days	**6,956**	6,154
	35,288	34,815
Other debtors and deposits	**104,275**	88,902
	139,563	123,717

Notes to Financial Statements

31st July, 2005

25. DEBTORS AND DEPOSITS/CREDITORS, DEPOSITS RECEIVED AND ACCRUALS (continued)

(b) An aged analysis of the trade creditors at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Trade creditors:		
Less than 30 days	11,023	12,768
31 - 60 days	1,758	2,179
61 - 90 days	332	301
Over 90 days	467	714
	13,580	15,962
Other creditors, deposits received and accruals	236,757	437,787
	250,337	453,749

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**118,006**	108,662	**15,447**	37,876
Time deposits	**398,806**	519,441	**281,382**	433,552
	516,812	628,103	**296,829**	471,428
Pledged bank balances	**(6,896)**	(3,795)	**(6,896)**	(3,795)
Pledged time deposits	**(63,465)**	(93,862)	**(63,465)**	(92,862)
Pledged bank balances and time deposits	**(70,361)**	(97,657)	**(70,361)**	(96,657)
Cash and cash equivalents	**446,451**	530,446	**226,468**	374,771

26. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES AND TIME DEPOSITS (continued)

Pledged bank balances and time deposits are classified as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts classified as current assets:				
Amounts pledged for bank borrowings due within one year:				
Bank balances	—	3,795	—	3,795
Time deposits	—	85,862	—	84,862
Time deposits pledged to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by a bank to a subsidiary and an associate of the Group	8,020	8,000	8,020	8,000
Current portion	8,020	97,657	8,020	96,657
Amounts classified as non-current assets:				
Amounts pledged for long term bank borrowings:				
Bank balances	6,896	—	6,896	—
Time deposits	55,445	—	55,445	—
Non-current portion	62,341	—	62,341	—
	70,361	97,657	70,361	96,657

At the balance sheet date, cash and bank balances of the Group denominated in Vietnamese Dong ("VND") amounted to HK$5,793,400 (2004: HK$4,407,000). The VND is not freely convertible into other currencies. However, under the Regulations on Foreign Exchange Control of the Socialist Republic of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

Notes to Financial Statements

31st July, 2005

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings, secured	**2,457,500**	2,060,600	**1,960,100**	1,079,500
Other borrowings, secured	**231,244**	231,133	**5,000**	22,800
	2,688,744	2,291,733	**1,965,100**	1,102,300
Bank borrowings repayable:				
Within one year	**74,379**	2,060,600	**52,500**	1,079,500
In the second year	**109,453**	—	**85,000**	—
In the third to fifth years, inclusive	**2,157,838**	—	**1,822,600**	—
Beyond five years	**115,830**	—	**—**	—
	2,457,500	2,060,600	**1,960,100**	1,079,500
Other borrowings repayable:				
Within one year	**30,856**	231,133	**5,000**	22,800
In the second year	**200,388**	—	**—**	—
	231,244	231,133	**5,000**	22,800
Portion classified as current liabilities	**(105,235)**	(2,291,733)	**(57,500)**	(1,102,300)
Non-current portion	**2,583,509**	—	**1,907,600**	—

As detailed in note 2 to the financial statements, the Group's outstanding bank and other borrowings as at 31st July, 2004 were refinanced and rescheduled to longer terms during the year.

The Group's bank and other borrowings as at 31st July, 2005 are secured by:

(i) fixed charges over the Group's hotel properties, and certain leasehold buildings, investment properties and prepaid land lease payments;

(ii) floating charges over certain assets held by the Group; and

(iii) the pledge of the Group's bank balances and time deposits (note 26).

The carrying amounts of the Group's bank and other borrowings approximated their fair values at the balance sheet date.

Notes to Financial Statements

31st July, 2005

28. PROVISION FOR PREMIUM ON LOAN REPAYMENT

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**32,396**	26,875
Provided during the year - note 11	**1,979**	5,521
Prepaid during the year	**(5,000)**	—
Refinanced during the year - note 36(a)(iii)	**(29,375)**	—
At end of year	**—**	32,396

29. BONDS PAYABLE

	Group	
	2005	2004
	HK$'000	HK$'000
Exchangeable Bonds: (i)		
At beginning of year	**621,671**	621,671
Settled during the year - note 2	**(621,671)**	—
At end of year	**—**	621,671
A Bonds: (ii)		
Arising from the Settlements - note 2	**266,058**	—
Repaid during the year	**(263,398)**	—
At end of year	**2,660**	—
B Bonds: (iii)		
Arising from the Settlements - note 2	**70,059**	—
Cancellation upon the transfer of Second Tranche Shares by the bondholders and credited to the consolidated income statement	**(32,567)**	—
At end of year	**37,492**	—
Total bonds payable	**40,152**	621,671

Notes to Financial Statements

31st July, 2005

29. BONDS PAYABLE (continued)

Notes:

(i) The amount as at 31st July, 2004 represented the outstanding Exchangeable Bonds issued by Lai Sun International Finance (Cayman Islands) Limited, a wholly-owned subsidiary of the Company, pursuant to a trust deed dated 28th February, 1997 (the "EB Trust Deed"). The Exchangeble Bonds bore interest at a rate of 4% per annum on their aggregate principal amounts and accrued redemption premium up to 31st December, 2002 and were unconditionally and irrevocably guaranteed by the Company.

As at 31st July, 2004, the holders of the Exchangeable Bonds shared:

(1) on a pari passu and pro rata basis, with the holders of Convertible Bonds, the security of a second charge over 285,512,791 shares of HK$0.50 each in the issued share capital of eSun indirectly beneficially owned by the Company; and

(2) on a pari passu and pro rata basis, with the Convertible Bondholders and eSun of the Ritz-Carlton Security.

Further details of the settlement of the Exchangable Bonds and the accrued bond redemption premium were set out in note 2 to the financial statements.

(ii) As detailed in note 2 to the financial statements, the A Bonds were issued by LSI (2004A) to the Bondholders pursuant to the Bonds Settlement. The A Bonds are interest-free and repayable on or before 31st December, 2005. The A Bonds are secured by, inter alia, (a) charges over the Group's entire 26.01% interest in Caravelle Hotel, Ho Chi Minh City, Vietnam, (b) charges over the Group's entire 62.625% interest in Furama Resort, Danang, Vietnam, (c) charges over the Group's entire 10% interest in the Waterfront, Hong Kong (collectively, the "Three Planned Sale Interests"), (d) the Ritz-Carlton Security; and (e) a charge over the Group's interests in eSun, and are guaranteed by the Company for full repayment.

Pursuant to the Bonds Settlement, the Company agreed to procure the sale of the Three Planned Sale Interests in an orderly and expeditious manner before 31st December, 2005 for the purpose of raising funds to repay the A Bonds.

Pursuant to the Bonds Settlement, in the event that the aggregate proceeds from the disposal of the Three Planned Sale interests exceeds the principal amount of the A Bonds, the excess amount should be shared between the holders of the A Bonds and the Group on a 70:30 basis. As at 31st July, 2005, HK$136,525,000, an amount representing 70% provision of the excess amount of the net estimated realisable value of the remaining two Three Planned Sale Interests and the net proceeds so far generated from the Three Planned Sale Interests over the initial outstanding amount of the A Bonds, was provided for in the accounts.

Notes to Financial Statements

31st July, 2005

29. BONDS PAYABLE (continued)

Notes: (continued)

(ii) After the Completion, the Company paid a total amount of approximately HK$280,783,000 to the Law Debenture Corporation (H.K.) Limited (the "Security Trustee") for settlement of the A Bonds which was funded by:

(a) the net proceeds received from the Furama Resort Disposal which was completed on 4th July,2005;

(b) distribution made by Porchester Assets Limited following partial repayment of shareholder loan owed by CCHJV which was funded by the proceeds of a loan facility arranged by CCHJV; and

(c) various other distributions from the Three Planned Sale Interests.

Out of the total amount paid by the Group, HK$263,398,000 was used to settle the A Bonds, and an amount of HK$2,660,000 representing the residual principal amount of the A Bonds was retained by the Security Trustee until the distribution of the 70% of the net proceeds on the sale, disposal or valuation of the remaining two assets under the Three Planned Sale Interests in accordance with the terms and conditions of the A Bonds. The funds derived from the Three Planned Sale Interests during the year has exceeded the principal amount of the A Bonds and the excess were shared between the holders of the A Bonds and the Group on a 70:30 basis. Accordingly, HK$14,725,000 was paid to the holders of the A Bonds.

(iii) As detailed in note 2 to the financial statements, the B Bonds were issued by LSI (2004B) pursuant to the Bonds Settlement. The B Bonds are interest-free, secured by the Ritz-Carlton Security, are guaranteed by the Company for repayment, and are repayable on or before 31st December, 2005. The Group is liable to settle the B Bonds if Mr. Peter Lam, a director of the Company, fails to purchase all or any of the Second Tranche Shares pursuant to the exercise of the put rights afforded to the respective bondholders.

The Group will have no liability if the bondholders of the B Bonds (a) sell or transfer the relevant Second Tranche Shares to any other parties on or before 31st December, 2005; (b) successfully put and complete the transfer of their Second Tranche Shares to Mr. Peter Lam; or (c) elect to retain their Second Tranche Shares as at 1st December, 2005. In the event that Mr. Peter Lam fails to purchase all or any of the Second Tranche Shares, the Group will remain contingently liable to repay the amount of up to approximately HK$70 million due to these bondholders.

With respect to the Second Tranche Shares, certain of the bondholders had transferred a total of 1,301,303,612 Bonds Settlement Shares during the year which reduced the B Bonds' outstanding principal balance by HK$32,567,000 to HK$37,492,000 as at 31st July, 2005.

30. CONVERTIBLE BONDS PAYABLE

The amount as at 31st July, 2004 represented the Convertible Bonds issued by Lai Sun International Finance (1997) Limited ("LSIF 1997"), a wholly-owned subsidiary of the Company pursuant to a trust deed dated 4th August, 1997 (the "CB Trust Deed") entered into between the Company, LSIF 1997 and The Law Debenture Trust Corporation p.l.c. (the "CB Trustee"). The Convertible Bonds were unconditionally and irrevocably guaranteed by the Company. The Convertible Bonds initially bore interest at a rate of 4% per annum on their principal amount.

Notes to Financial Statements

31st July, 2005

30. CONVERTIBLE BONDS PAYABLE (continued)

As at 31st July, 2004, the holders of the Convertible Bonds shared, on a pari passu and pro rata basis, with the holders of the Exchangeable Bonds, the security as mentioned in note 29(i)(1) above and shared with the holders of the Exchangeable Bonds and eSun, on a pari passu and pro rata basis, the security as described in note 29(i)(2).

The Convertible Bonds were fully settled during the year and further details of the Settlement of the Convertible Bonds were set out in note 2 to the financial statements.

31. DEFERRED TAX

Movements in deferred tax assets/(liabilities) during the year are as follows:

Group

	Revaluation of investment properties HK$'000	Accelerated capital allowances HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st August, 2003					
As previously reported	—	(80,203)	27,026	—	(53,177)
Effect of adopting HKAS-Int-21 - note 4	(508,190)	(117,001)	45,442	36,330	(543,419)
As restated	(508,190)	(197,204)	72,468	36,330	(596,596)
Deferred tax credited to the consolidated income statement during the year - note 13	102,159	18,766	5,956	—	126,881
Arising on disposal of subsidiaries - note 36(c)	10,106	98,347	—	—	108,453
At 31st July, 2004	(395,925)	(80,091)	78,424	36,330	(361,262)
At 1st August, 2004					
As previously reported	—	(59,854)	25,705	—	(34,149)
Effect of adopting HKAS-Int-21 - note 4	(395,925)	(20,237)	52,719	36,330	(327,113)
As restated	(395,925)	(80,091)	78,424	36,330	(361,262)
Deferred tax debited to the consolidated income statement during the year - note 13	(104,865)	(4,010)	(45,289)	(36,330)	(190,494)
At 31st July, 2005	(500,790)	(84,101)	33,135	—	(551,756)

31. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of HK$913,436,000 (2004: HK$1,371,042,000 (restated)) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as such losses are not probable to be utilised in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Company

	Revaluation of investment properties HK$'000	Accelerated capital allowances HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st August, 2003					
As previously reported	—	—	—	—	—
Effect of adopting HKAS-Int-21	(276,709)	(43,969)	45,081	36,330	(239,267)
As restated	(276,709)	(43,969)	45,081	36,330	(239,267)
Deferred tax debited to the income statement during the year	(26,258)	9,018	7,278	—	(9,962)
At 31st July, 2004	(302,967)	(34,951)	52,359	36,330	(249,229)
At 1st August, 2004					
As previously reported	—	—	—	—	—
Effect of adopting HKAS-Int-21	(302,967)	(34,951)	52,359	36,330	(249,229)
As restated	(302,967)	(34,951)	52,359	36,330	(249,229)
Deferred tax debited to the income statement during the year	(68,115)	(1,548)	(38,634)	(36,330)	(144,627)
At 31st July, 2005	(371,082)	(36,499)	13,725	—	(393,856)

Notes to Financial Statements

31st July, 2005

32. SHARE CAPITAL

	Number of shares 2005 '000	Nominal value 2005 HK$'000	Number of shares 2004 '000	Nominal value 2004 HK$'000
Authorised:				
Ordinary shares of HK$0.50 each	**16,000,000**	**8,000,000**	10,000,000	5,000,000
Preference shares of HK$1.00 each	**1,200,000**	**1,200,000**	1,200,000	1,200,000
		9,200,000		6,200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**12,746,042**	**6,373,021**	3,746,002	1,873,001

Pursuant to an ordinary resolution passed on 13th October, 2004, the authorised share capital of the Company was increased from HK$5,000,000,000 to HK$8,000,000,000 by the creation of 6,000,000,000 additional shares of HK$0.50 each, ranking pari passu in all respects with the existing share capital of the Company. On 7th December, 2004, approximately 9,000 million shares were issued at a par value of HK$0.50 per share in relation to the Settlements (note 2).

Movements in the Company's issued ordinary share capital are summarised as follows:

	Number of shares in issue '000	Issued share capital HK$'000
At 1st August, 2003, 31st July, 2004 and 1st August, 2004	3,746,002	1,873,001
Issuance of eSun Settlement Shares at HK$0.5 each (note 2)	5,200,000	2,600,000
Issuance of Bonds Settlement Shares at HK$0.5 each (note 2)	3,800,040	1,900,020
	9,000,040	4,500,020
At 31st July, 2005	12,746,042	6,373,021

Notes to Financial Statements

31st July, 2005

33. 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 35 to 37 of the financial statements.

As detailed in note 3 to the financial statements, in respect of acquisitions of subsidiaries before 1st August, 2001, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill and negative goodwill in respect of acquisitions, which occurred prior to the adoption of the HKFRSs, to remain eliminated against the consolidated reserves.

	Goodwill eliminated against accumulated losses HK$'000	Negative goodwill credited to accumulated losses HK$'000
Cost:		
At 1st August, 2003		
As previously reported	32,270	(149,983)
Effect of adopting HKAS Int-21 - note	32,979	149,983
As restated	65,249	—
Release upon disposal of an investment property	(32,979)	—
At 31st July, 2004, at 1st August, 2004 and at 31st July, 2005	32,270	—
Accumulated impairment:		
At 1st August, 2003, at 31st July, 2004 and at 31st July, 2005	—	—
Net amount:		
At 31st July, 2005	32,270	—
At 31st July, 2004	32,270	—

Note:

The adoption of HKFRSs by a subsidiary of the Group has resulted in an increase in cost of goodwill as at 1st August, 2003.

Notes to Financial Statements

31st July, 2005

33. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Investment property revaluation reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st August, 2003:					
As previously reported	5,858,164	1,281,192	1,200,000	(10,725,190)	(2,385,834)
Effect of adopting:					
HKAS 40	—	(1,281,192)	—	1,281,192	—
HKAS-Int-21	—	—	—	(239,267)	(239,267)
As restated	5,858,164	—	1,200,000	(9,683,265)	(2,625,101)
Profit for the year (restated)	—	—	—	261,480	261,480
At 31st July, 2004	5,858,164	—	1,200,000	(9,421,785)	(2,363,621)
At 1st August, 2004:					
As previously reported	5,858,164	1,431,241	1,200,000	(10,603,797)	(2,114,392)
Effect of adopting					
HKAS 40	—	(1,431,241)	—	1,431,241	—
HKAS-Int-21	—	—	—	(249,229)	(249,229)
As restated	5,858,164	—	1,200,000	(9,421,785)	(2,363,621)
Loss for the year	—	—	—	(1,645,507)	(1,645,507)
At 31st July, 2005	5,858,164	—	1,200,000	(11,067,292)	(4,009,128)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and bank balances, and short term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

Bank loans, cash and bank balances, and short term time deposits are stated at cost and are not revalued on a periodic basis. Floating rates interest income and expenses are charged to the income statement as incurred.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's revenue is predominately in HK$ or US$ and certain portion of the bank borrowings are denominated in US$. As US$ and HK$ are pegged, the Group does not expect any significant movements in exchange rates in the foreseeable future.

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's measurement currency.

(iii) Commodity price risk

The Group's exposure to commodity price risk is minimal.

(iv) Credit risk

The Group maintains various credit policies for different business operations as described in note 25. In addition, receivable balances are closely monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. As a result, there is no requirement for collateral.

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

Notes to Financial Statements

31st July, 2005

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from either the financial market or from realisation of its assets if required.

35. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of all the financial assets and financial liabilities as at 31st July, 2005 are reasonable approximation of their fair values.

Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at 31st July, 2005 and 2004 that are exposed to interest rate risk:

At 31st July, 2005

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
Floating rate:								
Pledged bank balances	—	—	—	—	6,896	—	6,896	—
Pledged time deposits	8,020	—	—	—	55,445	—	63,465	2.78
Cash and cash equivalents	446,451	—	—	—	—	—	446,451	1.30
Bank and other borrowings	74,379	109,453	386,314	152,175	1,619,349	115,830	2,457,500	4.98
Fixed rate:								
Other borrowings	30,856	200,388	—	—	—	—	231,244	8.25
The eSun Loan	—	—	—	—	225,000	—	225,000	4.50

35. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

At 31st July, 2004

	Within 1 year HK$'000	Effective interest rate %
Floating rate:		
Pledged bank balances	3,795	—
Pledged time deposits	93,862	0.05
Cash and cash equivalents	530,446	0.72
Bank and other borrowings	2,060,600	3.23
Fixed rate:		
Other borrowings	231,133	8.04
Convertible Bonds	906,750	4.00
Exchangeable Bonds	621,671	5.00
The Debt	1,500,040	5.00

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) Pursuant to the Settlements as detailed in note 2 to the financial statements, the Group settled the Bonds and the Debt by (i) the issue of the A Bonds of approximately HK$266 million; (ii) the issue of the B Bonds of approximately HK$70 million; (iii) the refinancing of the eSun Loan of HK$225 million; and (iv) the issue of approximately 3,800 million of the Bonds Settlement Shares and of 5,200 million of the eSun Settlement Shares, at a price of HK$0.50 per share. These transactions did not result in any cash flow to the Group during the year.

(ii) During the year, the outstanding amount of the B Bonds was cancelled by HK$32,567,000 upon certain holders of the B Bonds transferring a total of 1,301,303,612 Bonds Settlement Shares during the year. Further details of the cancellation are set out in notes 2 and 29(iii) to the financial statements.

(iii) As detailed in note 28 to the financial statements, an amount of HK$29,375,000 provision for premium on loan repayment was refinanced as other borrowings with an extended repayment term.

(b) Acquisition of subsidiaries

In the prior year, the Group acquired the entire equity interest in GHR from the eSun Group at a cash consideration of HK$10,300,000. GHR owns a hotel management and a consultancy service contract for a hotel in Vietnam. Goodwill for the same amount arose from the acquisition (note 20). GHR contributed turnover of HK$6,059,000 and profit for the year of HK$5,822,000 to the consolidated income statement for the year ended 31st July, 2004.

Notes to Financial Statements

31st July, 2005

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

(c) Disposal of subsidiaries

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net assets disposed of:			
Property, plant and equipment	16	**126,231**	526,866
Prepaid land lease payments	17	**14,355**	—
Investment properties	18	—	252,000
Goodwill	20	—	88,171
Inventories		**2,231**	995
Debtors and deposits		**4,172**	15,753
Pledged deposits		—	2,000
Cash and cash equivalents		**40,381**	4,632
Creditors, deposits received and accruals		**(23,744)**	(5,296)
Tax payable		—	(1,255)
Interest-bearing bank borrowings		—	(500,000)
Deferred tax liabilities	31	—	(108,453)
Minority interests		**(25,303)**	—
Release of exchange fluctuation reserve		**(35)**	—
		138,288	275,413
Reclassification to interests in associates		—	(137,867)
Gain/(loss) on disposal		**(7,752)**	52,183
		130,536	189,729
Satisfied by:			
Cash		**130,536**	185,000
Receivable		—	4,729
		130,536	189,729

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

	2005 HK$'000	2004 HK$'000
Cash consideration received	**130,536**	185,000
Cash and cash equivalents disposed of	**(40,381)**	(4,632)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	90,155	180,368

The subsidiaries disposed of during the year contributed turnover of HK$54,740,000 (2004: HK$100,167,000) and profit for year attributable to equity holders of the parent of HK$3,319,000 (2004: HK$26,297,000 (as restated)) to the consolidated income statement for the year.

Notes to Financial Statements

31st July, 2005

37. COMMITMENTS

The Group had the following commitments not provided for in the financial statements at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments - contracted but not provided for	7,777	—	7,777	—

38. CONTINGENT LIABILITIES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	—	—	**382,244**	1,137,829
Associates	**294,380**	469,088	**294,380**	469,088
	294,380	469,088	**676,624**	1,606,917
Guarantees given in connection with the issue of the Exchangeable Bonds	—	—	—	621,671
Guarantees given in connection with the issue of the Convertible Bonds	—	—	—	906,750
Guarantees given in connection with the issue of the A Bonds	—	—	**2,661**	—
Guarantees given in connection with the issue of the B Bonds	—	—	**37,492**	—
	294,380	469,088	**716,777**	3,135,338

Notes to Financial Statements

31st July, 2005

38. CONTINGENT LIABILITIES (continued)

(ii) Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung Holdings Limited ("Lai Fung"), the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax ("LAT") payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the "Property Interests"). These tax indemnities given by the Company 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, independent chartered surveyors, 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 values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (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 Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997.

Lai Fung had no LAT payable during the year. No income tax payable by Lai Fung was indemnifiable by the Company during the year.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 18) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**159,777**	151,491	**117,361**	110,696
In the second to fifth years, inclusive	**109,830**	130,727	**80,393**	76,651
	269,607	282,218	**197,754**	187,347

Notes to Financial Statements

31st July, 2005

39. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain properties under operating lease arrangements. Leases for properties as at 31 July, 2005 had a remaining term of one year.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**926**	3,506	**926**	2,654
In the second to fifth years, inclusive	**—**	2,884	**—**	2,885
	926	6,390	**926**	5,539

40. COMPARATIVE AMOUNTS

As further explained in notes 3 and 4 to the financial statements, due to the early adoption of HKFRSs 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 reclassified and restated to conform to the current year's presentation.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18th November, 2005.