

# Notes to Financial Statements

31st July, 2005

## 1. CORPORATE INFORMATION

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

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

## 2. 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 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

# Notes to Financial Statements

31st July, 2005

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

HKAS 37	Provisions, Contingent Liabilities and Contingent 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 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 3	Revenue - Pre-completion Contracts for the Sale of Development Properties
HKAS-Int-15	Operating Leases - Incentives
HKAS-Int-21	Income Taxes - Recovery of Revalued Non-depreciable Assets

The early adoption of HKASs 2, 7, 8, 10, 12, 14, 18, 19, 23, 27, 28, 33, 37, 39 Amendment, and HKAS-Int-15 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosures in the Group's consolidated financial statements. The major effects on early adoption of the other HKFRSs are summarised as follows:

### (a) HKAS 1 - Presentation of Financial Statements

HKAS 1 requires the following new disclosures to be made in these financial statements:

- minority interests, at the balance sheet date are now included in the equity section of the balance sheets, and are separated from the equity attributable to the equity holders of the Company, and on the face of the consolidated income statement as allocations of profit or loss for the period between "profit or loss attributable to minority interests" and "profit or loss attributable to equity holders of the parent". A similar disclosure is required for total income and expense for the period currently presented in the consolidated statement of changes in equity, showing separately the total amounts attributable to equity holders of the Company and to minority interests;
- share of tax of an associate attributable to the Group, which was previously included in tax charge in the consolidated income statement, is now net off in the Group's share of profit and loss of an associate; and
- the Group is no longer permitted not to disclose comparative information on movements in property, plant and equipment.

Apart from the above changes, HKAS 1 also requires the disclosure of judgements and the key assumptions. These disclosures are detailed in note 4 to the financial statements.

# Notes to Financial Statements

31st July, 2005

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

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

#### Service apartments

Upon the adoption of HKAS 16 and HK-Int 2, owner-operated service apartments are now stated at cost less accumulated depreciation and any impairment losses. This change in accounting policy has been applied retrospectively and the comparative amounts have been restated to conform to the new policy. The depreciation rates adopted by the Group for service apartments are summarised in note 5 to the financial statements. Further details of the prior year adjustments of this change and arising thereon, and the new accounting policy for service apartments are included in note 3 and note 5 to the financial statements, respectively.

#### Properties under development

In prior years, the Group's properties under development are categorised as those held for investment potential, which were stated at their open market values on the basis of annual professional valuations, and those held for purposes other than investment potential, which were stated at cost less any impairment losses.

Upon the adoption of HKAS 16, all leasehold properties under development are accounted for as property, plant and equipment and are stated at cost less any impairment losses. Once the constructions or developments of these properties are completed, they are reclassified to the appropriate asset categories. The new accounting policy has been adopted retrospectively, with comparative amounts restated. The effects of the above changes to these financial statements and the new accounting policy are summarised in note 3 and note 5 to the financial statements, respectively.

44

### (c) HKAS 17 - Leases

#### Leasehold land

In prior years, the Group's 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, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, 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 payments cannot be allocated reliably between the land and the buildings elements, the entire lease payments are included in the cost of leasehold land and buildings, as a finance lease in property, plant and equipment.

# Notes to Financial Statements

31st July, 2005

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

### (c) HKAS 17 - Leases (continued)

#### Leasehold land (continued)

In prior years, leasehold land held for property development purpose was included as part of the Group's properties under development. With the adoption of HKAS 17, leasehold land included in the Group's properties under development and held under operating leases, are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. The amortisation charges are capitalised as part of the development costs. The leasehold land continues to be classified as part of the Group's properties under development. The directors consider that this a fairer presentation of the Group's investments in property development projects.

The change in accounting policy has had no effect on the Group's 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 note 3 and note 5 to the financial statements, respectively.

### (d) HKAS 21 - The Effects of Changes in Foreign Exchange Rates

HKAS 21 prescribes the basis for foreign currency transactions and foreign operations to be included in the financial statements of an entity. Upon the adoption of HKAS 21, goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of foreign operations shall be treated as assets and liabilities of those foreign operations, which are translated at the closing rate at each balance sheet date. Previously, those goodwill and fair value adjustments were reported using the exchange rates prevailing at the respective acquisition dates. The Group has taken advantage of the transitional provisions of HKAS 21 and comparative amounts have not been restated. Further details of these changes are included in the accounting policy for foreign currencies in note 5 to the financial statements.

### (e) HKAS 24 - Related Party Disclosures

HKAS 24 provides additional guidance and clarity to the definition and disclosures of related parties and related party transactions. Upon the adoption of HKAS 24, the related note disclosures are now more extensive than previously required. These related party disclosures are presented in note 7 to the financial statements.

### (f) HKAS 32 and HKAS 39 - Financial Instruments

HKAS 32 contains requirements for the presentation of financial instruments and identifies the information that should be disclosed about them. The disclosures required by HKAS 32 is included in note 33 to the financial statements.

HKAS 39 establishes principles for recognising and measuring financial assets, financial liabilities and some derivative instruments. The adoption of HKAS 39 has had no effect on these financial statements.

# Notes to Financial Statements

31st July, 2005

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

### (g) HKAS 40 - Investment Property

#### Investment properties

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.

This change in accounting policy has been adopted retrospectively. The comparative amounts for the earlier period presented have been restated to conform to the new policy. The effects of the above changes on the consolidated financial statements and the new accounting policy for investment properties are summarised in note 3 and note 5 to the financial statements, respectively.

### (h) HKFRS 2 – Share-based Payment

#### Employee share options

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received. Options which were cancelled prior to their exercise date, or which lapsed, were deleted from the register of outstanding options.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (the “equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to its fair value of the equity-settled instruments at the date at which the instruments are granted. In valuing the equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

# Notes to Financial Statements

31st July, 2005

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

### (h) HKFRS 2 – Share-based Payment (continued)

There were no share options granted by the Company to its directors after 7th November, 2002 but had not been vested by 1st August, 2004. Accordingly, the adoption of HKFRS 2 has had no effect on these financial statements. The new accounting policy for employee share options are summarised in note 5 to the financial statements.

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

#### Goodwill/negative goodwill

In prior years, goodwill/negative goodwill arising on acquisitions prior to 1st January, 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/entity.

Negative goodwill on acquisitions after the adoption of Statement of Standard Accounting Practice 30 (“SSAP 30”) “Business Combinations” since 1st January, 2001 was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

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 impairment loss being recognised in the income statement of the year). 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 consolidated income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated reserves) against retained earnings at 1st August, 2004. Goodwill previously eliminated against the consolidated capital reserve remains eliminated against the consolidated reserve 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 are summarised in note 3 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

The new accounting policies for business combinations and impairment of assets are disclosed in note 5 to the financial statements.

# Notes to Financial Statements

31st July, 2005

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

### (j) HK-Int-3 - Revenue - Pre-completion Contracts for the Sale of Development Properties

#### Revenue recognition for the pre-sale of properties under development

In prior years, revenue arising from the pre-sale of properties under development was recognised over the course of property development and calculated by reference to the lower of (i) the percentage of construction completion; and (ii) the proportion of the actual cash received to the total sales consideration. The adoption of HK-Int-3 has resulted in a change in the accounting policy relating to revenue recognition arising from the pre-completion contracts for the sale of development properties. For pre-completion contracts entered into on or after 1st January, 2005, the revenue is now recognised only upon completion of the sale agreements, which refers to the time when properties are completed and delivered to the buyers. Payments received from the buyers prior to completion of the sale agreements are recorded as deferred income and included in the consolidated balance sheet as a liability. The Group has taken advantage of the transition provision of HKAS-Int-3 and continues to account for those pre-sale contracts entered into before 1st January, 2005 using the method of accounting adopted prior to the application of this Interpretation. The adoption of HK-Int-3 has had no effect on the previously reported financial statements. The effects of the above changes on these consolidated financial statements and the new accounting policy for revenue recognition on the pre-sale of properties under development are summarised in note 3 and note 5 to the financial statements, respectively.

### (k) 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 relevant income tax rates have been applied to the calculation of deferred tax.

The change in accounting policy has been adopted retrospectively from the earliest period presented and the comparative amounts have been restated. Further details of the effects of the above changes and the new accounting policy are summarised in note 3 and note 5 to the financial statements, respectively.

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.

# Notes to Financial Statements

31st July, 2005

## 3. SUMMARY OF THE EFFECT OF CHANGES IN 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 and 2003 to take into account the effect of changes in the accounting policies disclosed in note 2 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 and diluted 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 profit of an associate/ provision for amounts due from associates	Total
	HKAS 1	HKAS 16	HKAS 17	HKAS 40	HKAS- Int-21	HK-Int-3*	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31st July, 2005								
Decrease in turnover	—	—	—	—	—	(245,261)	—	(245,261)
Decrease in cost of sales	—	—	—	—	—	143,589	—	143,589
Decrease in other income and gain	—	—	—	—	(270)	—	—	(270)
Increase in other operating expenses	—	(15,304)	(147)	—	—	—	—	(15,451)
Increase in revaluation surplus on investment properties	—	—	—	435,073	—	—	—	435,073
Increase in share of profit of an associate	1,131	—	—	—	—	—	—	1,131
Increase in provision for amounts due from associates	—	—	—	—	—	—	(3,463)	(3,463)
Decrease/(increase) in tax	(1,131)	(9,232)	—	—	5,713	33,952	(3,866)	25,436
Increase/(decrease) in profit for the year	—	(24,536)	(147)	435,073	5,443	(67,720)	(7,329)	340,784
Increase/(decrease) in profit attributable to:								
Equity holders of the parent	—	1,392	(147)	328,950	5,157	(64,334)	(7,329)	263,689
Minority interests	—	(25,928)	—	106,123	286	(3,386)	—	77,095
	—	(24,536)	(147)	435,073	5,443	(67,720)	(7,329)	340,784
Increase/(decrease) in earnings per share:								
Basic (HK cents)	—	0.02	—	5.60	0.09	(1.10)	(0.12)	4.49
Diluted (HK cents)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

\* Adjustments which take effect prospectively from 1st January, 2005.



# Notes to Financial Statements

31st July, 2005

## 3. SUMMARY OF THE EFFECT OF CHANGES IN 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 profit of an associate/ provision for amounts due from associates	Total
	HKAS 1 HK\$'000	HKAS 16 HK\$'000	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKAS- Int-21 HK\$'000	HK\$'000	
<u>For the year ended 31st July, 2004</u>							
Decrease in other income and gain	—	—	—	—	(37)	—	(37)
Increase in other operating expenses	—	(15,207)	(147)	—	—	—	(15,354)
Increase in revaluation deficit on investment properties	—	—	—	(189,121)	—	—	(189,121)
Increase/(decrease) in share of profit of an associate	(14,725)	—	—	—	—	10,441	(4,284)
Increase in provision for amounts due from associates	—	—	—	—	—	(14,404)	(14,404)
Decrease/(increase) in tax	14,725	2,568	—	—	65,637	(2,903)	80,027
Increase/(decrease) in profit for the year	<u>—</u>	<u>(12,639)</u>	<u>(147)</u>	<u>(189,121)</u>	<u>65,600</u>	<u>(6,866)</u>	<u>(143,173)</u>
Increase/(decrease) in profit attributable to:							
Equity holders of the parent	—	(12,471)	(147)	(179,602)	62,318	(6,866)	(136,768)
Minority interests	—	(168)	—	(9,519)	3,282	—	(6,405)
	<u>—</u>	<u>(12,639)</u>	<u>(147)</u>	<u>(189,121)</u>	<u>65,600</u>	<u>(6,866)</u>	<u>(143,173)</u>
Increase/(decrease) in earnings per share:							
Basic (HK cents)	<u>—</u>	<u>(0.24)</u>	<u>—</u>	<u>(3.52)</u>	<u>1.22</u>	<u>(0.14)</u>	<u>(2.68)</u>
Diluted (HK cents)	<u>—</u>	<u>(0.24)</u>	<u>—</u>	<u>(3.52)</u>	<u>1.22</u>	<u>(0.14)</u>	<u>(2.68)</u>

## Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECT OF CHANGES IN ACCOUNTING POLICIES  
(continued)

## (b) Consolidated balance sheet

	Impact of new HKFRSs on the Company and its subsidiaries						Impact of new HKFRSs on interests in associates	Total
	HKAS 16 HK\$'000	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKFRS 3 and HKAS 36** HK\$'000	HKAS- Int-21 HK\$'000	HK-Int-3* HK\$'000	HK\$'000	
As at 31st July, 2005								
Increase in property, plant and equipment	570,603	—	—	—	—	—	—	570,603
Increase in prepaid land lease payments	—	5,431	—	—	—	—	—	5,431
Decrease in investment properties	(748,194)	(6,606)	—	—	—	—	—	(754,800)
Increase/(decrease) in properties under development	(883,396)	—	—	—	—	118,277	—	(765,119)
Decrease/(increase) in negative goodwill	1,693	—	—	8,807	(560)	—	—	9,940
Increase in interests in associates	—	—	—	—	—	—	11,477	11,477
Decrease in creditors and accruals	—	—	—	—	—	54,922	—	54,922
Increase in deposits received and deferred income	—	—	—	—	—	(274,871)	—	(274,871)
Decrease in tax payable	—	—	—	—	—	35,754	—	35,754
Decrease/(increase) in deferred tax liabilities	210,728	—	—	—	104,239	(1,802)	—	313,165
Increase/(decrease) in net assets	<u>(848,566)</u>	<u>(1,175)</u>	<u>—</u>	<u>8,807</u>	<u>103,679</u>	<u>(67,720)</u>	<u>11,477</u>	<u>(793,498)</u>
Increase/(decrease) in investment properties revaluation reserve	(126,182)	—	(497,818)	—	105,101	—	—	(518,899)
Decrease in revaluation reserve of properties under development held for investment potential	(591,071)	—	—	—	—	—	—	(591,071)
Increase in exchange fluctuation reserve	221	—	1,645	—	—	—	—	1,866
Increase/(decrease) in capital reserve	(5,375)	—	—	(60,522)	7,377	—	—	(58,520)
Increase/(decrease) in retained earnings	<u>(147,362)</u>	<u>(1,175)</u>	<u>496,173</u>	<u>69,329</u>	<u>(13,790)</u>	<u>(64,334)</u>	<u>11,477</u>	<u>350,318</u>
Increase/(decrease) in equity attributable to equity holders of the parent	(869,769)	(1,175)	—	8,807	98,688	(64,334)	11,477	(816,306)
Increase/(decrease) in minority interests	<u>21,203</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,991</u>	<u>(3,386)</u>	<u>—</u>	<u>22,808</u>
Increase/(decrease) in equity	<u>(848,566)</u>	<u>(1,175)</u>	<u>—</u>	<u>8,807</u>	<u>103,679</u>	<u>(67,720)</u>	<u>11,477</u>	<u>(793,498)</u>

\* Adjustments which take effect prospectively from 1st January, 2005.

\*\* Adjustments which take effect prospectively from 1st August, 2004.

# Notes to Financial Statements

31st July, 2005

## 3. SUMMARY OF THE EFFECT OF CHANGES IN 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 16 HK\$'000	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKFRS 3 and HKAS 36** HK\$'000	HKAS- Int-21 HK\$'000	HK\$'000	
As at 31st July, 2004 and 1st August, 2004							
Increase in property, plant and equipment	578,416	—	—	—	—	—	578,416
Increase in prepaid land lease payments	—	5,578	—	—	—	—	5,578
Decrease in investment properties	(726,394)	(6,606)	—	—	—	—	(733,000)
Decrease in properties under development	(1,752,780)	—	—	—	—	—	(1,752,780)
Decrease/(increase) in negative goodwill	1,693	—	—	8,807	(290)	—	10,210
Increase in interests in associates	—	—	—	—	—	18,806	18,806
Decrease in deferred tax liabilities	313,590	—	—	—	98,526	—	412,116
Increase/(decrease) in net assets	<u>(1,585,475)</u>	<u>(1,028)</u>	<u>—</u>	<u>8,807</u>	<u>98,236</u>	<u>18,806</u>	<u>(1,460,654)</u>
Increase/(decrease) in investment properties revaluation reserve	(38,471)	—	(167,223)	—	105,101	—	(100,593)
Decrease in revaluation reserve of properties under development held for investment potential	(1,332,490)	—	—	—	—	—	(1,332,490)
Increase/(decrease) in capital reserve	(5,375)	—	—	(60,522)	7,377	—	(58,520)
Decrease/(increase) in accumulated losses	<u>(148,754)</u>	<u>(1,028)</u>	<u>167,223</u>	<u>69,329</u>	<u>(18,947)</u>	<u>18,806</u>	<u>86,629</u>
Increase/(decrease) in equity attributable to equity holders of the parent	(1,525,090)	(1,028)	—	8,807	93,531	18,806	(1,404,974)
Increase/(decrease) in minority interests	<u>(60,385)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,705</u>	<u>—</u>	<u>(55,680)</u>
Increase/(decrease) in equity	<u>(1,585,475)</u>	<u>(1,028)</u>	<u>—</u>	<u>8,807</u>	<u>98,236</u>	<u>18,806</u>	<u>(1,460,654)</u>

\*\* Adjustments which take effect prospectively from 1st August, 2004.

## Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECT OF CHANGES IN 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 16 HK\$'000	HKAS 17 HK\$'000	HKAS 40 HK\$'000	HKFRS 3 and HKAS 36** HK\$'000	HKAS- Int-21 HK\$'000	HK\$'000	HK\$'000
As at 31st July, 2003 and 1st August, 2003							
Increase in property, plant and equipment	593,288	—	—	—	—	—	593,288
Increase in prepaid land lease payments	—	5,725	—	—	—	—	5,725
Decrease in investment properties	(789,094)	(6,606)	—	—	—	—	(795,700)
Decrease in properties under development	(1,419,232)	—	—	—	—	—	(1,419,232)
Decrease/(increase) in negative goodwill	1,693	—	—	—	(253)	—	1,440
Increase in interests in associates	—	—	—	—	—	25,672	25,672
Decrease in deferred tax liabilities	89,122	—	—	—	107,835	—	196,957
Increase/(decrease) in net assets	<u>(1,524,223)</u>	<u>(881)</u>	<u>—</u>	<u>—</u>	<u>107,582</u>	<u>25,672</u>	<u>(1,391,850)</u>
Increase/(decrease) in investment property revaluation reserve	(100,339)	—	(346,825)	—	176,400	—	(270,764)
Decrease in revaluation reserve of properties under development held for investment potential	(1,265,426)	—	—	—	—	—	(1,265,426)
Increase/(decrease) in capital reserve	(5,375)	—	—	—	7,377	—	2,002
Decrease/(increase) in accumulated losses	<u>(136,283)</u>	<u>(881)</u>	<u>346,825</u>	<u>—</u>	<u>(81,265)</u>	<u>25,672</u>	<u>154,068</u>
Increase/(decrease) in equity attributable to equity holders of the parent	(1,507,423)	(881)	—	—	102,512	25,672	(1,380,120)
Increase/(decrease) in minority interests	<u>(16,800)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,070</u>	<u>—</u>	<u>(11,730)</u>
Increase/(decrease) in equity	<u>(1,524,223)</u>	<u>(881)</u>	<u>—</u>	<u>—</u>	<u>107,582</u>	<u>25,672</u>	<u>(1,391,850)</u>

\*\* Adjustments which take effect prospectively from 1st August, 2004.

# Notes to Financial Statements

31st July, 2005

## 4. 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 as discussed below, 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 materially affect the net present value used in the impairment test.

#### *Income taxes*

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.

54

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.

# Notes to Financial Statements

31st July, 2005

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

### Estimation uncertainty

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

#### *Estimation of fair value of investment properties and recoverable amounts of properties under development and completed properties for sales*

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 independent valuations; (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.

#### *Estimation of total budgeted costs and costs to completion for property development projects*

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

#### *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.

# Notes to Financial Statements

31st July, 2005

## 5. 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, 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 the interests of outside shareholders in the results and net assets of the Company's subsidiaries and are now presented separately as allocations of profits or losses for the period in the consolidated income statement and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent.

### Subsidiaries

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

56

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

### Joint venture companies

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

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

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint venture companies (continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a financial asset, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### Associates

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

The 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 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 the net assets under the equity method of accounting, less any impairment losses.

The reporting dates of associates and the Group are identical. If the associates use accounting policies other than those used by the Group for like transactions and events in similar circumstances, adjustments are made, as necessary, to give effect to uniform accounting policies for like transactions and events in similar circumstances in applying the equity method of accounting.

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



# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations

#### *Goodwill*

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

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

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

For an asset such as goodwill that does not generate largely independent cash flows, the recoverable amount is determined for the smallest identifiable group of assets including that asset that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a "cash-generating unit").

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

58

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

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

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

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in profit or loss 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.

#### *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.

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations (continued)

*Negative goodwill previously recognised as an asset or eliminated against the consolidated reserves*

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

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1st August, 2004 the carrying amounts of negative goodwill (including that remaining in the consolidated reserves) against retained earnings.

### Impairment of assets

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

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

A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of 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 statement 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.

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment including owner-operated service apartments, other than investment properties and properties under development, are stated at cost less accumulated depreciation and any impairment losses. The cost of an 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

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

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

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

60

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

### Prepaid land lease payments

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

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

# Notes to Financial Statements

31st July, 2005

## 5. 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 performed 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.

### Properties under development

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

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

### Completed properties for sale

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

### 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.

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets

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 or sell the assets. Regular way purchases or sales are purchases or sales of the financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After its initial recognition, interest-bearing loans and 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 net profit or loss when the liabilities are derecognised 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.

62

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.

### 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.

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

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

- (a) from the sale of properties, upon the establishment of a binding contract in respect of the sale of properties, and on the attainment of the relevant completion certificates by the government authorities concerned, whichever is later;
- (b) from the pre-sale of properties under development for pre-completion contracts entered into before 1st January, 2005, when a binding contract in respect of the sale of properties has been executed and the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, the attributable revenues and profits on the pre-sold portion of the properties under development, being a proportion of the total revenues and profits expected on completion, are recognised over the course of the development. The proportion used is calculated by reference to the lower of:
  - (i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and
  - (ii) the proportion of the actual cash received to the total sales consideration.

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

- (c) rental and property management fee income is recognised in the period in which the properties are let and on the straight-line basis over the lease terms;
- (d) service fee income is recognised when services are rendered; and
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### Borrowing costs

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

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 material expected future cost of such paid leave earned during the year by the employees and carried forward.

#### *Pension schemes*

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

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

64

### Share-based payments

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

#### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

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

# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments (continued)

#### *Equity-settled transactions (continued)*

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

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

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

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

### 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 recognised in 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 and associates 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 a separate component of equity, 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.



# Notes to Financial Statements

31st July, 2005

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised 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 goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries 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 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:

66

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries 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 taxable profit will be available against which the temporary differences can be utilised.

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

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

# Notes to Financial Statements

31st July, 2005

## 5. 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 and assets similar in nature to cash, which are not restricted as to use.

### 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 jointly-controlled entity;
- (c) the party is an associate;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (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

## 6. SEGMENT INFORMATION

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

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

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

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

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

# Notes to Financial Statements

31st July, 2005

## 6. SEGMENT INFORMATION (continued)

### Business segments

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

### Group

	Property development		Property investment		Consolidated	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Segment revenue:						
Sales to external customers	247,421	501,600	—	—	247,421	501,600
Rental income	—	—	155,442	128,604	155,442	128,604
Other revenue	172	826	39,113	33,452	39,285	34,278
Total	<u>247,593</u>	<u>502,426</u>	<u>194,555</u>	<u>162,056</u>	<u>442,148</u>	<u>664,482</u>
Segment results	<u>1,239</u>	<u>90,496</u>	<u>536,420</u>	<u>(110,852)</u>	<u>537,659</u>	<u>(20,356)</u>
Interest income and unallocated gains					23,364	23,999
Unallocated expenses					<u>(44,971)</u>	<u>(20,497)</u>
Profit/(loss) from operating activities					516,052	(16,854)
Finance costs					<u>(42,470)</u>	<u>(31,758)</u>
Share of profit of an associate	—	—	3,015	25,841	3,015	25,841
Provision for amounts due from associates	—	—	<u>(35,953)</u>	<u>(2,539)</u>	<u>(35,953)</u>	<u>(2,539)</u>
Write-back of provision for impairment of interest in a jointly-controlled entity	—	42,555	—	—	—	42,555
Profit before tax					440,644	17,245
Tax					<u>(122,817)</u>	<u>16,207</u>
Profit for the year					<u>317,827</u>	<u>33,452</u>
Attributable to:						
Equity holders of the parent					246,197	36,006
Minority interests					<u>71,630</u>	<u>(2,554)</u>
					<u>317,827</u>	<u>33,452</u>

# Notes to Financial Statements

31st July, 2005

## 6. SEGMENT INFORMATION (continued)

### Business segments (continued)

#### Group

	Property development		Property investment		Consolidated	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Segment assets	1,097,652	1,226,820	4,570,213	3,883,226	5,667,865	5,110,046
Interests in associates	—	—	658,058	645,401	658,058	645,401
Unallocated assets					93,413	108,241
Total assets					<u>6,419,336</u>	<u>5,863,688</u>
Segment liabilities	313,997	117,553	173,233	87,316	487,230	204,869
Unallocated liabilities					<u>1,530,343</u>	<u>1,637,274</u>
Total liabilities					<u>2,017,573</u>	<u>1,842,143</u>
Other segment information:						
Depreciation	999	706	17,679	17,672	18,678	18,378
Write-back of provision for a completed property for sale	—	—	—	(2,533)	—	(2,533)
Capital expenditure	<u>298,861</u>	<u>203,484</u>	<u>173,596</u>	<u>111,466</u>	<u>472,457</u>	<u>314,950</u>

# Notes to Financial Statements

31st July, 2005

## 7. RELATED PARTY DISCLOSURES

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

### (a) Transactions with related parties

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000
Interest income from an associate	(i)	22,022	20,933
Rental expense paid to a director	(ii)	(900)	(825)
Advertising fees paid to related companies	(iii)	<u>(12,072)</u>	<u>(7,812)</u>

Notes:

- (i) Interest was charged on an advance made to an associate at the Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong plus 2% per annum. Further details of the advance are included in note 22 to the financial statements.
- (ii) The annual rental charges were based on the terms stated in the respective lease agreements.
- (iii) The related companies are subsidiaries of eSun Holdings Limited ("eSun") of which certain directors of the Company are also directors and key management personnel of eSun.

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

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

	2005 HK\$'000	2004 HK\$'000
Short term employee benefits	21,903	13,243
Post-employment benefits	<u>383</u>	<u>161</u>
Total compensation paid to key management personnel	<u>22,286</u>	<u>13,404</u>

## Notes to Financial Statements

31st July, 2005

### 8. TURNOVER, AND OTHER INCOME AND GAIN

The Group is principally engaged in property development and property investment. Revenue comprises proceeds from the sale of properties and rental income from service apartments and investment properties. An analysis of the Group's turnover, and other income and gain, is as follows:

	Note	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Turnover:			
Sale of properties		247,421	501,600
Rental income from service apartments and investment properties		<u>155,442</u>	<u>128,604</u>
		<u>402,863</u>	<u>630,204</u>
Other income and gain:			
Management fee income		31,553	27,212
Interest income from:			
Bank deposits		1,302	647
An associate		22,022	20,933
Negative goodwill recognised as income	20	—	233
Other income		<u>7,772</u>	<u>9,252</u>
		<u>62,649</u>	<u>58,277</u>
		<u>465,512</u>	<u>688,481</u>

# Notes to Financial Statements

31st July, 2005

## 9. FINANCE COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	53,700	47,773
Loans from minority interests	11,091	—
Advances from a substantial shareholder	8	758
Bank charges	3,594	4,150
	<u>68,393</u>	<u>52,681</u>
Less: Interest capitalised in properties under development	<u>(25,923)</u>	<u>(20,923)</u>
Total finance costs	<u>42,470</u>	<u>31,758</u>

## 10. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Cost of completed properties held for sale		14,505	174,976
Cost of pre-sale of properties under development		203,525	209,379
Outgoings in respect of rental income		23,226	22,091
		<u>241,256</u>	<u>406,446</u>
Depreciation #	16	19,222	19,137
Auditors' remuneration		1,300	920
Amortisation of prepaid land lease payments **		5,230	4,128
Capitalised in properties under development	19	<u>(5,083)</u>	<u>(3,981)</u>
	17	<u>147</u>	<u>147</u>
Guaranteed service apartment rental returns		3,007	2,797
Minimum lease payments under operating leases in respect of land and buildings		1,484	1,402
Staff costs (including directors' remuneration - note 11):			
Wages and salaries		53,700	41,195
Pension scheme contributions *		960	577
		<u>54,660</u>	<u>41,772</u>
Capitalised in properties under development		<u>(30,870)</u>	<u>(22,436)</u>
		<u>23,790</u>	<u>19,336</u>



# Notes to Financial Statements

31st July, 2005

## 10. PROFIT BEFORE TAX (continued)

	Group	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Provision for bad and doubtful debts **	1,465	—
Foreign exchange gains, net **	(9,373)	(2,185)
Write-back of provision for a completed property for sale	<u>—</u>	<u>(2,533)</u>

# Depreciation charge of HK\$15,304,000 (2004: HK\$15,207,000 (restated)) for service apartments is included in “Other operating expenses, net” on the face of the consolidated income statement.

\* At 31st July, 2005, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in future years (2004: Nil).

\*\* These expenses are included in “Other operating expenses, net” on the face of the consolidated income statement.

## 11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees	583	499
Salaries, allowances and benefits in kind	21,320	12,744
Pension scheme contributions	<u>383</u>	<u>161</u>
	22,286	13,404
Capitalised in properties under development	<u>(15,442)</u>	<u>(9,535)</u>
	<u>6,844</u>	<u>3,869</u>

Fees include HK\$192,000 (2004: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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

During the year, no share options (2004: 92,124,800 share options) were granted to the directors in respect of their services to the Group, further details of the Company's share option scheme are set out in note 31 to the financial statements.

# Notes to Financial Statements

31st July, 2005

## 11. DIRECTORS' REMUNERATION (continued)

There were no share options granted by the Company to its directors after 7th November, 2002 but had not been vested by 1st August, 2004. Accordingly, the adoption of HKFRS 2 has had no effect on the comparative amounts of directors' emoluments disclosed above. In addition, no expense was recognised for the share options granted during the year ended 31st July, 2004, or was otherwise included in the above directors' remuneration disclosures.

The remuneration of each director of the Company for the year ended 31st July, 2005, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), is set out below:

Name	Fees HK\$'000	Salaries, allowances, and	Pension scheme	Total HK\$'000
		benefits in kind HK\$'000	contributions HK\$'000	
Executive directors:				
Lam Kin Ngok, Peter	—	2,000	—	2,000
Lam Kin Ming	—	4,160	—	4,160
Lam Kin Hong, Matthew	—	5,306	194	5,500
Lam Hau Yin, Lester	—	264	—	264
Ho Wing Tim	—	3,870	177	4,047
Lee Po On	120	—	—	120
U Po Chu	—	4,004	—	4,004
Lau Shu Yan, Julius	—	—	—	—
Tam Kin Man, Kraven	—	—	—	—
Lim Por Yen	—	—	—	—
Yew Yat Ming	—	—	—	—
	<u>120</u>	<u>19,604</u>	<u>371</u>	<u>20,095</u>
Non-executive directors:				
Lam Kin Ko, Stewart	216	1,716	12	1,944
Wong Yee Sui, Andrew	70	—	—	70
Lam Bing Kwan	70	—	—	70
Chiu Wai	—	—	—	—
Shiu Kai Wah	—	—	—	—
Siu Fai Wing	55	—	—	55
Yu Po Kwan	—	—	—	—
Mui Ying Chun, Robert	52	—	—	52
	<u>463</u>	<u>1,716</u>	<u>12</u>	<u>2,191</u>
Total	<u>583</u>	<u>21,320</u>	<u>383</u>	<u>22,286</u>

# Notes to Financial Statements

31st July, 2005

## 12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining one (2004: one) non-director, highest paid employee for the year are set out below:

	Group	
	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	3,764	2,399
Pension scheme contributions	168	100
	<u>3,932</u>	<u>2,499</u>
Capitalised in properties under development	(2,807)	(1,919)
	<u>1,125</u>	<u>580</u>

During the year, no share options were granted to the non-director, highest paid employee in respect of his service to the Group, further details of the Company's share option scheme are set out in note 31 to the financial statements (2004: Nil).

## 13. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2004: Nil). 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 HK\$'000	2004 HK\$'000 (Restated)
Current tax – Hong Kong profits tax:		
Overprovision in prior years	—	(100)
Current tax – Mainland China income taxes:		
Charge for the year	7,860	38,470
Under/(over)provision in prior years	(13,596)	4,855
	<u>(5,736)</u>	<u>43,225</u>
Deferred tax (note 29)	128,553	(59,432)
	<u>122,817</u>	<u>(16,207)</u>

Share of tax credit of an associate that amounted to HK\$1,131,000 (2004: tax charge of HK\$14,725,000 (restated)) is included in "Share of profit of an associate" on the face of the consolidated income statement.

## Notes to Financial Statements

31st July, 2005

### 13. TAX (continued)

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

	Group			
	2005			2004
	HK\$'000	%	HK\$'000 (Restated)	%
Profit before tax	440,644		17,245	
Less: share of profit of an associate	(3,015)		(25,841)	
Profit/(loss) before tax for the Company and its subsidiaries	<u>437,629</u>		<u>(8,596)</u>	
Tax at the statutory tax rate	144,418	33.0	(2,837)	33.0
Adjustments for tax rates for other jurisdictions	1,117	0.3	(8,585)	99.9
Adjustments in respect of current tax of previous periods	(13,596)	(3.1)	4,755	(55.3)
Income not subject to tax	(27,205)	(6.2)	(12,622)	146.8
Expenses not deductible for tax	20,146	4.6	2,697	(31.4)
Tax losses utilised from previous periods	(10,518)	(2.4)	(15)	0.2
Tax losses not recognised	8,455	1.9	400	(4.7)
Tax charge/(credit) at the Group's effective rate	<u>122,817</u>	<u>28.1</u>	<u>(16,207)</u>	<u>188.5</u>

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

# Notes to Financial Statements

31st July, 2005

## 13. TAX (continued)

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

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

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

The profit 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\$80,823,000 (2004: loss for the year of HK\$6,047,000) (note 32(b)).

## 15. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year attributable to equity holders of the parent of HK\$246,197,000 (2004: HK\$36,006,000 (restated)), and the weighted average number of 5,872,956,478 (2004: 5,097,409,009) ordinary shares in issue during the year.

The diluted earnings per share amount for the year ended 31st July, 2005 has not been disclosed as there were no diluting events that occurred during the year.

The calculation of diluted earnings per share for the previous year is based on the profit for the year attributable to equity holders of the parent of HK\$36,006,000 (restated), and the weighted average number of 5,097,409,009 ordinary shares in issue during the prior year, as used in the basic earnings per share calculation, and the weighted average of 4,211,984 ordinary shares deemed to have been issued at no consideration as if all of the Company's outstanding share options had been exercised.

# Notes to Financial Statements

31st July, 2005

## 16. PROPERTY, PLANT AND EQUIPMENT

### Group

	Leasehold land and buildings HK\$'000	Service apartments 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							
As previously reported	49,115	—	31	15,092	3,599	1,569	69,406
Effect of adopting HKFRSs	—	683,984	—	—	—	—	683,984
As restated	49,115	683,984	31	15,092	3,599	1,569	753,390
Additions	5	335	73	4,223	2,379	259	7,274
Disposals	—	—	—	(284)	—	(44)	(328)
At 31st July, 2004 (restated)	49,120	684,319	104	19,031	5,978	1,784	760,336
At 1st August, 2004							
As previously reported	49,120	—	104	19,031	5,978	1,784	76,017
Effect of adopting HKFRSs	—	684,319	—	—	—	—	684,319
As restated	49,120	684,319	104	19,031	5,978	1,784	760,336
Additions	—	—	4,350	973	1,670	253	7,246
Disposals	—	—	—	(108)	(280)	(15)	(403)
Exchange realignment	862	3,790	—	325	66	22	5,065
At 31st July, 2005	49,982	688,109	4,454	20,221	7,434	2,044	772,244

# Notes to Financial Statements

31st July, 2005

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

### Group

	Leasehold land and buildings HK\$'000	Service apartments improvements HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Computers HK\$'000	Total HK\$'000
Accumulated depreciation:							
At 1st August, 2003							
As previously reported	2,729	—	16	11,146	1,608	1,279	16,778
Effect of adopting HKFRSs	—	90,696	—	—	—	—	90,696
As restated	2,729	90,696	16	11,146	1,608	1,279	107,474
Depreciation during the year (note 10)	1,364	15,207	21	1,750	641	154	19,137
Disposals	—	—	—	(104)	—	(44)	(148)
At 31st July, 2004 (restated)	4,093	105,903	37	12,792	2,249	1,389	126,463
At 1st August, 2004							
As previously reported	4,093	—	37	12,792	2,249	1,389	20,560
Effect of adopting HKFRSs	—	105,903	—	—	—	—	105,903
As restated	4,093	105,903	37	12,792	2,249	1,389	126,463
Depreciation during the year (note 10)	1,363	15,304	21	1,407	1,001	126	19,222
Disposals	—	—	—	(57)	(94)	(15)	(166)
Exchange realignment	97	649	—	245	30	18	1,039
At 31st July, 2005	5,553	121,856	58	14,387	3,186	1,518	146,558
Net book value:							
At 31st July, 2005	44,429	566,253	4,396	5,834	4,248	526	625,686
At 31st July, 2004 (restated)	45,027	578,416	67	6,239	3,729	395	633,873

The Group's leasehold buildings and service apartments as at 31st July, 2004 and 2005 are situated in Mainland China and are held under medium term leases.

At 31st July, 2005, certain service apartments with a carrying value of approximately HK\$566,253,000 (2004: HK\$578,416,000 (restated)) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 27 to the financial statements.

# Notes to Financial Statements

31st July, 2005

## 17. PREPAID LAND LEASE PAYMENTS

Apart from the prepaid land lease payments that cannot be separated and included as part of the property, plant and equipment (note 16) and those included in properties under development (note 19), the Group had the following prepaid land lease payments in relation to the properties held for own use, details of which are set out as follows:

	Note	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Cost:			
At beginning of year			
As previously reported		—	—
Effect of adopting HKFRSs		6,606	6,606
		<u>6,606</u>	<u>6,606</u>
As restated and at end of year		<u>6,606</u>	<u>6,606</u>
Accumulated amortisation:			
At beginning of year			
As previously reported		—	—
Effect of adopting HKFRSs		1,028	881
		<u>1,028</u>	<u>881</u>
As restated		1,028	881
Amortisation during the year	10	147	147
		<u>1,175</u>	<u>1,028</u>
At end of year		<u>1,175</u>	<u>1,028</u>
Net book value:			
At end of year		<u>5,431</u>	<u>5,578</u>

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



# Notes to Financial Statements

31st July, 2005

## 18. INVESTMENT PROPERTIES

	Note	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
At beginning of year, at valuation			
As previously reported		2,704,400	2,946,700
Effect of adopting HKFRSs		(733,000)	(795,700)
As restated		1,971,400	2,151,000
Additions		—	2,746
Transfer from properties under development	19	632,344	—
Transfer from completed properties for sale		—	6,775
Surplus/(deficit) on revaluation		435,073	(189,121)
Exchange realignment		42,483	—
At end of year, at valuation		3,081,300	1,971,400

At 31st July, 2005, the investment properties were revalued by Chesterton Petty Limited, independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

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

	Group	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Long term leases	8,300	8,400
Medium term leases	3,073,000	1,963,000
	3,081,300	1,971,400

At 31st July, 2005, certain investment properties with a carrying value of approximately HK\$3,073,000,000 (2004: HK\$1,963,000,000 (restated)) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 27 to the financial statements.

# Notes to Financial Statements

31st July, 2005

## 19. PROPERTIES UNDER DEVELOPMENT

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Properties under development:			
At beginning of year			
As previously reported		3,634,658	3,377,730
Effect of adopting HKFRSs		(1,752,780)	(1,419,232)
As restated		1,881,878	1,958,498
Interest capitalised	9	25,923	20,923
Other additions *		466,187	298,487
Transfer to completed properties for sale		—	(189,881)
Transfer to investment properties	18	(632,344)	—
Attributable profits on pre-sale of development projects in progress		13,588	88,346
Sale deposits and instalments received		(388,904)	(294,776)
Exchange realignments		36,552	281
At end of year		1,402,880	1,881,878
Portion classified as current assets		(53,284)	—
Non-current portion		1,349,596	1,881,878

\* Comparative amount includes the land obtained for the Group's giving up of its entitlement in a jointly-controlled entity. The carrying value of the new land was HK\$42,348,000 as at 31st July, 2004.

## Notes to Financial Statements

31st July, 2005

### 19. PROPERTIES UNDER DEVELOPMENT (continued)

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

	Note	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Cost:			
At beginning of year		224,104	181,739
Additions		110,688	42,348
Exchange realignment		3,934	17
At end of year		<u>338,726</u>	<u>224,104</u>
Accumulated amortisation:			
At beginning of year		27,504	23,521
Amortisation during the year	10	5,083	3,981
Exchange realignment		571	2
At end of year		<u>33,158</u>	<u>27,504</u>
Net book value:			
At end of year		<u>305,568</u>	<u>196,600</u>

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

	Group	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Long term leases	769,457	810,353
Medium term leases	633,423	1,071,525
	<u>1,402,880</u>	<u>1,881,878</u>

At 31st July, 2005, certain properties under development with a carrying value of approximately HK\$443,678,000 (2004: HK\$993,661,000 (restated)) were pledged to banks to secure banking facilities granted to the Group as further set out in note 27 to the financial statements.

## Notes to Financial Statements

31st July, 2005

### 20. GOODWILL AND NEGATIVE GOODWILL

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

	Note	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Gross amount:			
At beginning of year			
As previously reported		10,750	10,750
Effect of adopting HKFRSs		(10,750)	(1,477)
As restated and at end of year		—	9,273
Accumulated recognition as income:			
At beginning of year			
As previously reported		(540)	(270)
Effect of adopting HKFRSs		540	37
As restated		—	(233)
Amount recognised as income during the year	8	—	(233)
At end of year		—	(466)
Net book value:			
At end of year		—	8,807

On the adoption of SSAP 30 in 2001, the Group applied the transitional provisions of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of SSAP 30, to remain eliminated against or credited to the consolidated reserves, respectively.

As detailed in note 2 to the financial statements, upon the adoption of HKFRS 3, the Group adopted the transitional provisions of HKFRS 3, and derecognised, at 1st August, 2004, the carrying amounts of negative goodwill (including the amount that remained in consolidated reserves) against retained earnings. Goodwill previously eliminated against consolidated reserves remains eliminated 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.

## Notes to Financial Statements

31st July, 2005

### 20. GOODWILL AND NEGATIVE GOODWILL (continued)

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 31st July, 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001 and HKFRS 3, are as follows:

	Goodwill eliminated against consolidated accumulated losses	Goodwill eliminated against capital reserve	Negative goodwill credited to capital reserve	Total
	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)
Cost:				
At 1st August, 2004				
As previously reported	60,586	457	(58,520)	2,523
Effect of adopting HKFRSs	55,860	—	58,520	114,380
	<u>116,446</u>	<u>457</u>	<u>—</u>	<u>116,903</u>
As restated and at 31st July, 2005	<u>116,446</u>	<u>457</u>	<u>—</u>	<u>116,903</u>

### 21. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	144,270	144,270
Amounts due from subsidiaries	3,496,964	3,378,774
Amounts due to subsidiaries	(6,983)	(6,983)
	<u>3,634,251</u>	<u>3,516,061</u>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$277,151,000 due from a subsidiary which bear interest at LIBOR plus 3%.

# Notes to Financial Statements

31st July, 2005

## 21. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beautiwin Limited	Hong Kong	HK\$2	—	100	Investment holding
Canvex Limited	Hong Kong	HK\$2	—	100	Property investment
Goldthorpe Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK\$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK\$2	—	77.5	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd.**	Mainland China	RMB100,000,000*	—	100	Property development and investment
Guangzhou Grand Wealth Properties Ltd.**	Mainland China	HK\$138,000,000*	—	100	Property development and investment
Guangzhou Gongbird Property Development Ltd.**	Mainland China	US\$22,160,000*	—	100	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd.**	Mainland China	HK\$168,000,000*	—	77.5	Property investment
Lai Fung Company Limited	Hong Kong	HK\$20	100	—	Investment holding
Nicebird Company Limited	Hong Kong	HK\$2	—	100	Investment holding
Shanghai Li Xing Real Estate Development Co., Ltd.#	Mainland China	US\$36,000,000*	—	95	Property investment
Sunlite Investment Limited	Hong Kong	HK\$2	—	100	Investment holding
Topsider International Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK\$2	—	100	Investment holding

# Notes to Financial Statements

31st July, 2005

## 21. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai HKP Property Management Limited #	Mainland China	US\$150,000*	—	100	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.#	Mainland China	US\$10,000,000*	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Property investment
Manful Concept Limited	Hong Kong	HK\$2	—	100	Investment holding
Zhongshan Bao Li Properties Development Co., Ltd @	Mainland China	HK\$30,000,000	—	100	Property development and investment
South Hill Limited	Hong Kong	HK\$1	—	100	Property investment
Maniway Hong Kong Limited	Hong Kong	HK\$2	—	100	Investment holding

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

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

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

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

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

At 31st July, 2005, the shares in certain subsidiaries were pledged to secure bank loan facilities granted to the Group (note 27).

# Notes to Financial Statements

31st July, 2005

## 22. INTERESTS IN ASSOCIATES

	Group	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Share of net assets, other than goodwill	29,396	24,395
Amounts due from associates	720,808	677,199
	<u>750,204</u>	<u>701,594</u>
Less: Provision for impairment	(92,146)	(56,193)
	<u>658,058</u>	<u>645,401</u>

Except for an amount of HK\$298,531,000 (2004: HK\$298,329,000) due from an associate which bears interest at the Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong plus 2% per annum, the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the above balance of "Share of net assets, other than goodwill" was interest capitalised of HK\$72,095,000 (2004: HK\$72,095,000) on borrowings previously obtained for investments in associates engaged in property development.

The summarised financial information of associates as at 31st July, 2005, in aggregate, is as follows:

	2005 HK\$'000	2004 HK\$'000
Assets	1,195,798	1,276,415
Liabilities	(1,828,537)	(1,773,681)
Deficiency in assets	(632,739)	(497,266)
Turnover	18,595	16,867
Loss for the year	(147,728)	(5,515)
Contingent liabilities of associates	4,900	4,900

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



## Notes to Financial Statements

31st July, 2005

### 22. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates 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
Besto Investments Limited	Corporate	Hong Kong	Ordinary	25	Investment holding
Hankey Development Limited	Corporate	Hong Kong	Ordinary	50	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd.	Corporate	Mainland China	—*	48.3	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.	Corporate	Mainland China	—*	49.5	Property development and investment
Guangzhou Tianhe Baitao Culture and Entertainment Square Co., Ltd.	Corporate	Mainland China	—*	25	Property development and investment
Guangzhou Besto Real Estate Development Co., Ltd.	Corporate	Mainland China	—*	25	Property development and investment
Guangzhou New Wave Culture Plaza	Corporate	Mainland China	—*	25	Property development and investment

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

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

# Notes to Financial Statements

31st July, 2005

## 22. INTERESTS IN ASSOCIATES (continued)

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

A supplementary agreement was signed subsequently in June 2003 with the PRC party who agreed to transfer the legal title of part of the subject building to the Associate (the “Land Transfer”) at an agreed consideration plus any related costs arising from the Land Transfer.

Upon the completion of the Land Transfer in the prior year, the Associate reversed the impairment loss made in prior years to the 2004 income statement with reference to then market value of the building. The effect of the reversal was equity accounted for in the consolidated financial statements of the Group in that year.

## 23. COMPLETED PROPERTIES FOR SALE

The carrying amount of completed properties for sale carried at fair value less costs to be incurred for disposal was HK\$5,924,000 (2004: HK\$9,893,000) at the balance sheet date.

## Notes to Financial Statements

31st July, 2005

### 24. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms granted by the Group range from 30 to 180 days. An aged analysis of the Group's debtors, based on the invoice date, as at 31st July, 2005 is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Trade debtors:		
Within one month	6,912	7,246
One to two months	1,584	15,587
Two to three months	2,646	6,116
Three to six months	4,921	24,700
Over six months	5,907	10,882
	<u>21,970</u>	<u>64,531</u>
Deposits and prepayments *	<u>98,427</u>	<u>41,324</u>
Total	<u>120,397</u>	<u>105,855</u>

\* Included in deposits and prepayments as at 31st July, 2005, is an amount of HK\$46,000,000 paid to East Asia-Televisao por Satellite, Limitada ("EAST"), a wholly-owned subsidiary of eSun, as earnest money paid for the participation rights in a proposed residential property development project of EAST in Macau. On 29th June, 2005, the Group and EAST entered into a supplemental memorandum of cooperation to extend the time limit of obtaining the relevant approvals for the project from no later than June 2005 as set out in the memorandum dated 15th November, 2004 to no later than 31st December, 2005. Further details of this deposit are set out in the Company's announcements dated 17th November, 2004, 30th May, 2005 and 4th July, 2005. The Company and eSun have certain common directors and the above transaction constitutes a related party disclosure of the Group.

# Notes to Financial Statements

31st July, 2005

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS AND BANK BALANCES

	Note	Group		Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances		472,546	495,267	1,825	11,547
Less: Bank balances pledged for bank facilities *		(11,106)	(10,262)	—	—
Bank balances pledged for bank loans due within one year	27	(2,217)	(6,871)	—	—
Non-pledged cash and bank balances		459,223	478,134	1,825	11,547
Time deposits		35,215	70,596	5,843	70,000
Less: Restricted time deposits **		(1,918)	—	—	—
Non-pledged time deposits		33,297	70,596	5,843	70,000
Cash and cash equivalents		492,520	548,730	7,668	81,547

\* The balances are pledged to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group. The balances as at 31st July, 2004 were not expected to be released within 12 months from the balance sheet date and were therefore, classified as non-current assets in the consolidated balance sheet as at 31st July, 2004.

\*\* Pursuant to an agreement entered into between the Group and the buyers of certain properties developed by the Group, the Group received an amount of RMB2,000,000 from these buyers. The sum was deposited into a designated bank account and shall be retained for specific use.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$471,093,000 (2004: HK\$463,228,000). Currently, the RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

## Notes to Financial Statements

31st July, 2005

### 26. CREDITORS AND ACCRUALS

An aged analysis of the Group's creditors, based on the invoice date, as at 31st July, 2005 is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Trade creditors:		
Within one month	338	36,718
One to three months	254	2,465
Over three months	34,482	37,062
	<u>35,074</u>	<u>76,245</u>
Accruals and other creditors	220,641	181,265
	<u>220,641</u>	<u>181,265</u>
Total	<u>255,715</u>	<u>257,510</u>

### 27. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bank loans repayable:		
Within one year	218,527	89,227
In the second year	319,623	405,983
In the third to fifth years, inclusive	412,915	687,610
	<u>951,065</u>	<u>1,182,820</u>
Portion classified as current liabilities	(218,527)	(89,227)
	<u>(218,527)</u>	<u>(89,227)</u>
Non-current portion	732,538	1,093,593
	<u>732,538</u>	<u>1,093,593</u>

## Notes to Financial Statements

31st July, 2005

### 27. INTEREST-BEARING BANK LOANS, SECURED (continued)

The Group's bank loans are secured by:

- (a) mortgages over certain of the Group's service apartments, with a carrying value of approximately HK\$566,253,000 (2004: HK\$578,416,000 (restated)) (note 16) at the balance sheet date;
- (b) mortgages over certain of the Group's investment properties, with an aggregate carrying value of HK\$3,073,000,000 (2004: HK\$1,963,000,000 (restated)) (note 18) at the balance sheet date;
- (c) the pledge of certain of the Group's properties under development with an aggregate carrying value of HK\$443,678,000 (2004: HK\$993,661,000 (restated)) (note 19) at the balance sheet date;
- (d) mortgages over the entire registered capital of three (2004: two) of the Group's subsidiaries (note 21);
- (e) the pledge of the Group's bank balances of HK\$2,217,000 (2004: HK\$6,871,000) (note 25) at the balance sheet date; and
- (f) corporate guarantees provided by the Company.

### 28. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER

On 31st July, 2005, the executor of Mr. Lim Por Yen's estate, at the request of the Group, confirmed to the Group that no demand for settlement of the advances would be made within one year from the balance sheet date.

Except for an amount of HK\$6,598,000 which is interest bearing at the best lending rate quoted by a specified bank at 31st July, 2004, the remaining amount is unsecured and interest-free.

## Notes to Financial Statements

31st July, 2005

### 29. DEFERRED TAX

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

#### Group

	Accelerated tax depreciation HK\$'000 (Restated)	Revaluation of properties HK\$'000 (Restated)	Losses available for offset against future taxable profits HK\$'000 (Restated)	Total HK\$'000 (Restated)
At 1st August, 2004				
As previously reported	238,626	484,685	(11,801)	711,510
Effect of adopting HKFRSs	(34,302)	(341,202)	(36,612)	(412,116)
As restated	204,324	143,483	(48,413)	299,394
Deferred tax charged/(credited) to the income statement during the year (note 13)	(42,262)	143,344	27,471	128,553
Exchange realignment	161	2,922	—	3,083
At 31st July, 2005	162,223	289,749	(20,942)	431,030
At 1st August, 2003				
As previously reported	238,182	337,731	(20,130)	555,783
Effect of adopting HKFRSs	(31,687)	(131,425)	(33,845)	(196,957)
As restated	206,495	206,306	(53,975)	358,826
Deferred tax charged/(credited) to the income statement during the year (note 13)	(2,171)	(62,823)	5,562	(59,432)
At 31st July, 2004 (restated)	204,324	143,483	(48,413)	299,394

At 31st July, 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

# Notes to Financial Statements

31st July, 2005

## 30. SHARE CAPITAL

### Shares

	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\$0.10 each	<u>7,000,000</u>	<u>700,000</u>	<u>7,000,000</u>	<u>700,000</u>
Issued and fully paid:				
Ordinary shares of HK\$ 0.10 each	<u>5,872,956</u>	<u>587,296</u>	<u>5,872,956</u>	<u>587,296</u>

There were no movements in the Company's share capital during the year ended 31st July, 2005.

Movements in the Company's issued share capital for the year ended 31st July, 2004 are summarised as follows:

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

Notes:

- (a) During the year ended 31st July, 2004, a rights issue of one rights share for every four existing shares held by members on the register of members on 23rd June, 2004 was made, at an issue price of HK\$0.10 per rights share. This resulted in the issue of 1,174,591,295 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$117,460,000, which was used to meet the capital contribution requirement of the Group relating to property projects in Zhongshan in Mainland China and as working capital of the Group.
- (b) During the year ended 31st July, 2004, the subscription rights attaching to 92,124,800 share options were exercised at the subscription price of HK\$0.169 per share, resulting in the issue of 92,124,800 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$15,569,000. The net proceeds from the rights issue were used to meet the capital contribution requirements of the Group relating to property projects in the Guangdong Province in Mainland China and as additional working capital for the Group.

### Share options

Details of the Company's share option scheme are included in note 31 to the financial statements.



# Notes to Financial Statements

31st July, 2005

## 31. SHARE OPTION SCHEME

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

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

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

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

98

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

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

There were no share options granted under the Scheme to any eligible participants, or exercised, or lapsed during the year ended 31st July, 2005. At the balance sheet date, the Company had no share options outstanding under the Scheme (2004: Nil).

On 8th January, 2004, all the 92,124,800 share options granted to two directors of the Company were exercised by the directors. The closing price of the Company’s shares at the date immediately before the date of exercise was HK\$0.255 per share.

# Notes to Financial Statements

31st July, 2005

## 32. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 to 38 of the financial statements.

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against or credited to the consolidated reserves, as explained in note 20 to the financial statements.

### (b) Company

	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st August, 2003	3,222,276	(9,558)	(201,430)	3,011,288
Exercise of share options	6,357	—	—	6,357
Share issue expenses	(3,957)	—	—	(3,957)
Loss for the year (note 14)	—	—	(6,047)	(6,047)
At 31st July, 2004 and 1st August, 2004	3,224,676	(9,558)	(207,477)	3,007,641
Profit for the year (note 14)	—	—	80,823	80,823
At 31st July, 2005	3,224,676	(9,558)	(126,654)	3,088,464

# Notes to Financial Statements

31st July, 2005

## 33. 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 meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. 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) Foreign exchange risk

The Group's monetary assets, loans and transactions are principally denominated in RMB, United States Dollars ("USD") and Hong Kong Dollars ("HKD"). The Group is exposed to foreign exchange risk arising from the exposure of HKD against USD and RMB, respectively. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is nominal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

(ii) Credit risk

Credit risk arises from the possibility that the counterparty (buyers or tenants of the Group's properties) to a transaction is unwilling or unable to fulfil its obligation with the result that the Group thereby suffers financial loss. However, these credit risks of the Group are minimal as the property market and economy of Mainland China is relatively stable and grows steadily, respectively. Therefore, there is no requirements collateral.

(iii) Liquidity risk

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

## Notes to Financial Statements

31st July, 2005

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

#### (iv) Cash flow and fair value interest rate risk

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

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

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

#### (v) Price risk

Price risk arises from the implementation of macro-economic policies of Central and Municipal governments and the environment and development of property market in Mainland China, respectively. However, these price risks of the Group are minimal as the property market and economy of the Mainland China is relatively stable and grows steadily, respectively.

### 34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Disposal of a subsidiary

	2004 HK\$'000
Net assets disposed of:	
Long term investments	2,300
Loss on disposal of a subsidiary	(290)
	<u>2,010</u>
Satisfied by:	
Cash	<u>2,010</u>

During the year ended 31st July, 2004, the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary was HK\$2,010,000.

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

## Notes to Financial Statements

31st July, 2005

### 35. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its properties under operating lease arrangements, with leases negotiated for terms ranging from two months to ten years (2004: from two months to ten years). The terms of the leases generally also require the tenants to pay security deposits.

At 31st July, 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	109,250	73,784
In the second to fifth years, inclusive	187,760	111,790
After five years	45,183	49,310
	<u>342,193</u>	<u>234,884</u>

#### (b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements, with leases negotiated for terms of two years (2004: two years).

At 31st July, 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	104	133
In the second to fifth years, inclusive	—	29
	<u>104</u>	<u>162</u>

# Notes to Financial Statements

31st July, 2005

## 36. CONTINGENT LIABILITIES

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

	Company	
	2005	2004
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	1,289,615	1,166,581

As at 31st July, 2005, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$941,474,000 (2004: HK\$1,017,866,000).

- (b) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. The Group's obligation have gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.
- (c) Under the mortgage loan facilities provided by banks to the end-buyers of Eastern Place Phase I, Phase II and Phase III and Regents Park Phase I, the Group agreed to provide guarantees to certain banks to buy back the relevant property in case of default by the borrowers. The Group's obligation have gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. It is not practical to determine the outstanding amount of the contingent liabilities of the Group at the balance sheet date.

## 37. COMMITMENTS

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Land lease payments, resettlement, compensation and construction costs	620,345	572,530

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

# Notes to Financial Statements

31st July, 2005

## 38. FINANCIAL INSTRUMENTS

### Fair values

The carrying amounts of the Group's bank loans as at 31st July, 2004 and 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, 2004 and 2005 that are exposed to interest rate risk:

	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	Total HK\$'000	Effective interest rate %
Floating rate instruments:						
At 31st July, 2005						
Pledged time deposits and bank balances	15,241	—	—	—	15,241	—
Cash and cash equivalents	492,520	—	—	—	492,520	0.27
Bank loans	218,527	319,623	336,184	76,731	951,065	5.50
At 31st July, 2004						
Pledged time deposits and bank balances	6,871	10,262	—	—	17,133	—
Cash and cash equivalents	548,730	—	—	—	548,730	0.12
Bank loans	89,227	405,983	399,007	288,603	1,182,820	4.24

## 39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the early adoption of new and revised 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 and opening adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

## 40. APPROVAL OF THE FINANCIAL STATEMENTS

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