Notes to Financial Statements

31st July, 2006

1. CORPORATE INFORMATION

Lai Sun Development Company Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that 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.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs applicable to the Group's financial statements, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

In accordance with the amendments to HKAS 39 "Financial Instruments: Recognition and Measurement" regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation" relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January, 2007.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

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

The Group's share of results of eSun Holdings Limited ("eSun"), an associate of the Group, also includes the results of the Group which are shared by eSun when eSun equity accounts for the Group's results.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interests 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 recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently 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 the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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.

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 the cash-generating unit retained.

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

Impairment of assets

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

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (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 an associate;

(c) the party is a jointly-controlled entity;

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

(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 the employees of the Group, or of any entity that is a related party of the Group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Hotel properties	Over the remaining lease terms
Leasehold buildings	Over the remaining lease terms
Leasehold improvements	20%
Furniture, fixtures and equipment	10% — 20%
Motor vehicles	10% — 25%
Computers	10% — 25%
Motor vessels	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

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.

Notes to Financial Statements

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Properties under development

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

Completed properties for sale

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale investments

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

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest-bearing bank and other borrowings

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

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

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

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.

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

Provisions

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

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

Notes to Financial Statements

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2.3 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, in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or a 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, 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 credits 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 credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

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 cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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 rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Retirement benefits

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits (continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

Income tax

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

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

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3. 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 assets and liabilities within the next financial year, are discussed below.

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

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

Impairment test of assets and goodwill

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

4. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers 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 and sales segment engages in property development and the sale of properties;

(b) the property investment segment engages in the leasing of and sale of investment properties;

(c) the hotel and restaurant operations segment engages in the operation of hotels and restaurants; and

(d) the "others" segment comprises the Group's property management services business, which provides property management and security services to residential, office, industrial and commercial properties.

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

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

Intersegment sales and transfers are transacted with reference to the prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st July, 2006 and 2005:

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	–	3,626	265,402	246,717	497,202	515,384	31,203	23,072	–	–	793,807	788,799
Intersegment sales	–	–	6,740	8,555	–	–	21,851	22,020	(28,591)	(30,575)	–	–
Other revenue	–	–	992	897	421	788	134	490	–	–	1,547	2,175
Total	–	3,626	273,134	256,169	497,623	516,172	53,188	45,582	(28,591)	(30,575)	795,354	790,974
Segment results	(279)	1,229	516,425	785,667	106,182	268,983	8,679	9,654	–	–	631,007	1,065,533
Interest income and unallocated gains											35,109	10,381
Unallocated expenses											(121,191)	(113,945)
Reversal of impairment of/ (impairment of) available-for-sale debt investments											(2,969)	209,478
Profit from operating activities — page 52											541,956	1,171,447

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit from operating activities — page 51											**541,956**	1,171,447
Finance costs											**(156,943)**	(115,048)
Loss arising from the Bonds Settlement and the eSun Settlement, net											**—**	(1,483,527)
Reversal of provision for/(provision for) contingent liabilities to bondholders											**4,848**	(136,525)
Gain on cancellation of bond payables											**37,492**	32,567
Share of profits and losses of associates	**49,620**	166,973	**30,948**	27,841	**(118)**	3,734	**—**	—	**—**	—	**80,450**	198,548
Share of profits and losses of associates — unallocated											**27,302**	(29,158)
Reversal of impairment of associates	**—**	—	**—**	5,396	**—**	—	**—**	—	**—**	—	**—**	5,396
Impairment of associates — unallocated											**—**	(1,031)
Gain/(loss) on deemed disposal of interest in an associate											**94,653**	(16,419)
Profit/(loss) before tax											**629,758**	(373,750)
Tax											**(80,656)**	(197,446)
Profit/(loss) for the year											**549,102**	(571,196)

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31st July, 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities:												
Segment assets	67,793	15,107	4,146,746	3,828,852	1,453,840	1,520,442	21,145	47,482	—	—	5,689,524	5,411,883
Interests in associates	30,835	314,625	109,362	78,466	90,858	90,976	—	—	—	—	231,055	484,067
Interests in associates — unallocated											884,775	536,013
Unallocated assets											930,159	941,173
Total assets											7,735,513	7,373,136
Segment liabilities	165	56	80,186	71,301	53,653	57,446	8,948	4,405	—	—	142,952	133,208
Interest-bearing bank and other borrowings											2,544,392	2,688,744
Bonds payable											2,660	40,152
Other unallocated liabilities											723,504	712,871
Total liabilities											3,413,508	3,574,975

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Property development and sales 2006 HK$'000	Property development and sales 2005 HK$'000	Property investment 2006 HK$'000	Property investment 2005 HK$'000	Hotel and restaurant operations 2006 HK$'000	Hotel and restaurant operations 2005 HK$'000	Others 2006 HK$'000	Others 2005 HK$'000	Eliminations 2006 HK$'000	Eliminations 2005 HK$'000	Consolidated 2006 HK$'000	Consolidated 2005 HK$'000
Other segment information:												
Amortisation of prepaid land lease payments	—	—	—	—	985	1,010	—	—	—	—	985	1,010
Depreciation	—	—	38	22	55,554	58,132	146	89	—	—	55,738	58,243
Unallocated amounts											8,156	5,655
											63,894	63,898
Capital expenditure	59,735	37	915	1,355	26,832	9,934	218	267	—	—	87,700	11,593
Unallocated amounts											25,980	494
											113,680	12,087
Impairment of goodwill	—	—	—	—	2,289	2,289	—	—	—	—	2,289	2,289
Loss on disposal of subsidiaries	—	—	—	—	—	7,752	—	—	—	—	—	7,752
Reversal of impairment of property, plant and equipment	—	—	—	—	—	(176,396)	—	—	—	—	—	(176,396)
Fair value gain on investment properties	—	—	(315,091)	(599,549)	—	—	—	—	—	—	(315,091)	(599,549)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st July, 2006 and 2005:

	Hong Kong 2006 HK$'000	Hong Kong 2005 HK$'000	Vietnam 2006 HK$'000	Vietnam 2005 HK$'000	Other locations 2006 HK$'000	Other locations 2005 HK$'000	Eliminations 2006 HK$'000	Eliminations 2005 HK$'000	Consolidated 2006 HK$'000	Consolidated 2005 HK$'000
Segment revenue:										
Sales to external customers	625,229	569,961	168,578	218,838	—	—	—	—	793,807	788,799
Other revenue	1,547	1,747	—	428	—	—	—	—	1,547	2,175
Total	626,776	571,708	168,578	219,266	—	—	—	—	795,354	790,974
Other segment information:										
Segment assets	5,307,363	4,998,507	382,040	406,888	121	6,488	—	—	5,689,524	5,411,883
Capital expenditure	93,970	8,831	19,710	3,256	—	—	—	—	113,680	12,087

5. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Rental income and building management fee from related companies	(i)	**3,610**	3,942
Rental income and building management fee from eSun and its subsidiaries (collectively the "eSun Group")	(ii)	**1,849**	272
Rental income and building management fee from an associate of eSun	(ii)	**1,776**	1,168
Interest expense to Golden Pool Enterprise Limited ("GPEL")	(iii)	**1,886**	6,547

Notes:

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

(ii) The rental income and building management fee received from the eSun Group and an associate of eSun was based on terms stated in the respective lease agreements.

(iii) The terms of the interest paid or payable to GPEL, a subsidiary of eSun, are detailed in note 20 to the financial statements.

(b) Compensation of key management personnel of the Group

	Group 2006 HK$'000	Group 2005 HK$'000
Short term employee benefits	**14,001**	13,870
Post-employment benefits	**224**	290
Total compensation paid to key management personnel	**14,225**	14,160

Notes to Financial Statements

31st July, 2006

6. TURNOVER AND OTHER REVENUE

Turnover comprises the proceeds from sale of properties, rental income, and income from hotel, restaurant and other operations.

An analysis of the Group's turnover and other revenue are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Sale of properties and investment properties	—	3,626
Property rentals	**265,402**	246,717
Hotel, restaurant and other operations	**528,405**	538,456
	793,807	788,799
Other revenue		
Interest income from bank deposits	**12,226**	3,608
Other interest income	**17,972**	2,144
Dividend income from unlisted available-for-sale equity investments	**711**	671
Others	**5,747**	6,133
	36,656	12,556

7. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Depreciation#	14	**63,894**	63,898
Amortisation of prepaid land lease payments*	15	**985**	1,010
Staff costs (including directors' remuneration — note 9):			
Wages and salaries		**186,430**	187,506
Pension scheme contributions		**7,292**	5,681
		193,722	193,187
Auditors' remuneration		**2,080**	1,800
Loss/(gain) on disposal of items of property, plant and equipment*		**(567)**	271
Impairment of goodwill*	18	**2,289**	2,289
Reversal of provision for doubtful debts*		**—**	(650)
Write-off of bad debts*		**—**	1,756
Minimum lease payments under operating leases in respect of leasehold buildings		**5,528**	1,971
Fair value loss on financial assets at fair value through profit or loss, net		**—**	167
Rental income		**(265,402)**	(246,717)
Less: Outgoings		**45,425**	46,028
Net rental income		**(219,977)**	(200,689)
Foreign exchange losses, net		**132**	848

Depreciation charge of HK$56,786,000 (2005: HK$59,380,000) for property, plant and equipment is included in "other operating expenses" on the face of the consolidated income statement.

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

Notes to Financial Statements

31st July, 2006

8. FINANCE COSTS

	Group 2006 HK$'000	Group 2005 HK$'000
Interest on bank and other borrowings wholly repayable within five years	**129,036**	88,468
Interest on bank borrowings not wholly repayable within five years	**14,319**	1,059
Interest on an amount due to GPEL	**1,886**	6,547
Total interest expenses	**145,241**	96,074
Other finance costs:		
Provision for premium on loan repayment	**—**	1,979
Bank charges and refinancing charges	**11,702**	16,995
	156,943	115,048

9. DIRECTORS' REMUNERATION

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

	Group 2006 HK$'000	Group 2005 HK$'000
Fees	**320**	320
Other emoluments:		
Salaries, allowances and benefits in kind	**13,681**	13,550
Pension scheme contributions	**224**	290
	13,905	13,840
	14,225	14,160

Notes to Financial Statements

31st July, 2006

9. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
David Tang	**200**	200
Lam Bing Kwan	**60**	60
Leung Shu Yin, William	**60**	60
	320	320

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2006			
Executive directors:			
Lam Kin Ngok, Peter	8,447	12	8,459
Lau Shu Yan, Julius	2,740	137	2,877
Tam Kin Man, Kraven	1,433	72	1,505
Cheung Wing Sum, Ambrose	—	—	—
Wu Shiu Kee, Keith	1,061	3	1,064
	13,681	224	13,905
Non-executive directors:			
Lam Kin Ming	—	—	—
U Po Chu	—	—	—
Chiu Wai	—	—	—
Shiu Kai Wah	—	—	—
	—	—	—
	13,681	224	13,905

Notes to Financial Statements

31st July, 2006

9. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2005			
Executive directors:			
Lim Por Yen	—	—	—
Lam Kin Ngok, Peter	7,988	12	8,000
Lau Shu Yan, Julius	2,740	137	2,877
Wu Shiu Kee, Keith	2,822	141	2,963
	13,550	290	13,840
Non-executive directors:			
Lam Kin Ming	—	—	—
U Po Chu	—	—	—
Chiu Wai	—	—	—
Shiu Kai Wah	—	—	—
	—	—	—
	13,550	290	13,840

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

10. EMPLOYEES' REMUNERATION

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**4,389**	4,896
Pension scheme contributions	**211**	236
	4,600	5,132

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

	Number of employees	
	2006	2005
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	1
	2	2

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	HK$'000
Provision for tax for the year:		
Current — Hong Kong	**7,163**	7,719
Current — overseas	**1,232**	—
Deferred tax — note 27	**73,344**	190,494
	81,739	198,213
Prior years' overprovision — Hong Kong	**(1,083)**	(767)
Tax charge for the year	**80,656**	197,446

Notes to Financial Statements

31st July, 2006

11. TAX (continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Profit/(loss) before tax	**629,758**	(373,750)
Share of profits and losses of associates	**(107,752)**	(169,390)
Profit/(loss) before tax attributable to the Company and its subsidiaries	**522,006**	(543,140)
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	**91,351**	(95,050)
Higher tax rate for other countries	**771**	1,103
Adjustments in respect of current tax of previous periods	**(1,083)**	(767)
Income not subject to tax	**(27,768)**	(54,268)
Expenses not deductible for tax purposes	**22,729**	399,932
Tax losses utilised from previous periods	**(5,610)**	(53,504)
Tax losses not recognised	**266**	—
Tax charge at the Group's effective rate	**80,656**	197,446

12. PROFIT/(LOSS) FOR THE YEAR OF THE COMPANY

Profit for the year of the Company for the year ended 31st July, 2006 dealt with in the financial statements of the Company, was HK$106,608,000 (2005: loss of HK$1,645,507,000) (note 29(b)).

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$512,922,000 (2005: loss for the year attributable to ordinary equity holders of the Company of HK$705,962,000) and the 12,746,042,000 (2005: weighted average number of 9,589,864,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31st July, 2006 is based on the adjusted profit attributable to equity holders of the Company for that year of HK$512,797,000 and the number of 12,746,042,000 ordinary shares in issue during the year.

The current year adjusted profit attributable to equity holders of the Company is calculated based on the profit attributable to equity holders of the Company for that year of HK$512,922,000 less the dilution in the results of an associate, eSun, attributable to the Group of HK$125,000 arising from the deemed exercise of all eSun's share options being outstanding during that year.

Diluted loss per share amount for the year ended 31st July, 2005 has not been disclosed, as no diluting event existed during that year.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Note	Hotel properties HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Total HK$'000
Cost:									
At 1st August, 2004		1,699,845	37,900	48,913	317,288	21,283	11,419	32,893	2,169,541
Additions		248	—	522	9,232	—	764	112	10,878
Disposals/write-off		—	(7,147)	(450)	(3,498)	—	(312)	—	(11,407)
Arising from disposal of subsidiaries	32(b)	(150,269)	—	(27)	(101,988)	(2,351)	—	—	(254,635)
Transfers		(3,550)	3,550	—	—	—	—	—	—
Exchange realignments		—	—	—	—	16	—	—	16
At 31st July, 2005 and 1st August, 2005		1,546,274	34,303	48,958	221,034	18,948	11,871	33,005	1,914,393
Additions		—	—	20,688	8,948	5,021	768	—	35,425
Disposals/write-off		—	—	—	(5,910)	(3,372)	(10)	—	(9,292)
At 31st July, 2006		1,546,274	34,303	69,646	224,072	20,597	12,629	33,005	1,940,526

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31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Notes	Hotel properties HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Total HK$'000
Accumulated depreciation and impairment:									
At 1st August, 2004		546,569	11,433	33,541	216,044	17,385	8,228	32,714	865,914
Depreciation provided for the year	7	35,330	3,050	4,712	18,297	1,402	998	109	63,898
Disposals/write-off		—	(7,147)	(450)	(1,317)	—	(217)	—	(9,131)
Arising from disposal of subsidiaries	32(b)	(76,092)	—	—	(50,800)	(1,512)	—	—	(128,404)
Write-back of impairment		(176,396)	—	—	—	—	—	—	(176,396)
Exchange realignments		—	—	—	—	16	—	—	16
At 31st July, 2005 and 1st August, 2005		329,411	7,336	37,803	182,224	17,291	9,009	32,823	615,897
Depreciation provided for the year	7	30,268	683	9,145	20,071	2,189	1,430	108	63,894
Disposals/write-off		—	—	—	(1,898)	(2,983)	(5)	—	(4,886)
At 31st July, 2006		359,679	8,019	46,948	200,397	16,497	10,434	32,931	674,905
Net carrying amount:									
At 31st July, 2006		1,186,595	26,284	22,698	23,675	4,100	2,195	74	1,265,621
At 31st July, 2005		1,216,863	26,967	11,155	38,810	1,657	2,862	182	1,298,496

At 31st July, 2006, the Group's hotel properties with a total carrying amount of HK$1,186,595,000 (2005: HK$1,216,863,000) were pledged to banks to secure banking facilities granted to the Group (note 25).

At 31st July, 2006, certain leasehold buildings of the Group with a carrying amount of HK$23,647,000 were pledged to a bank to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary of the Group (note 25).

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

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

The reversal of impairment of property, plant and equipment in the prior year arose from directors' assessment of the estimated realisable value of the relevant property, plant and equipment.

The Group's hotel properties and leasehold buildings as at 31st July, 2006 included above are held under the following lease terms:

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

Company

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost:						
At 1st August, 2004	7,147	7,006	16,483	15,563	764	46,963
Additions	—	—	208	—	150	358
Disposals/write-off	(7,147)	—	(204)	—	—	(7,351)
At 31st July, 2005 and 1st August, 2005	—	7,006	16,487	15,563	914	39,970
Additions	—	16,793	4,220	4,820	140	25,973
Disposals/write-off	—	—	(887)	(2,100)	—	(2,987)
At 31st July, 2006	—	23,799	19,820	18,283	1,054	62,956
Accumulated depreciation:						
At 1st August, 2004	4,788	6,859	14,342	14,056	696	40,741
Depreciation provided for the year	2,359	49	1,127	909	74	4,518
Disposals/write-off	(7,147)	—	(204)	—	—	(7,351)
At 31st July, 2005 and 1st August, 2005	—	6,908	15,265	14,965	770	37,908
Depreciation provided for the year	—	3,405	1,827	1,785	91	7,108
Disposals/write-off	—	—	(887)	(2,100)	—	(2,987)
At 31st July, 2006	—	10,313	16,205	14,650	861	42,029
Net carrying amount:						
At 31st July, 2006	—	13,486	3,615	3,633	193	20,927
At 31st July, 2005	—	98	1,222	598	144	2,062

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31st July, 2006

15. PREPAID LAND LEASE PAYMENTS

	Group 2006 HK$'000	Group 2005 HK$'000
Cost:		
At beginning of year	**18,349**	36,370
Additions	**17,611**	—
Arising from disposal of subsidiaries — note 32(b)	**—**	(18,021)
At end of year	**35,960**	18,349
Accumulated amortisation:		
At beginning of year	**3,799**	6,455
Amortisation provided for the year — note 7	**985**	1,010
Arising from disposal of subsidiaries — note 32(b)	**—**	(3,666)
At end of year	**4,784**	3,799
Net carrying amount:		
At end of year	**31,176**	14,550

Leasehold land of the Group as at 31st July, 2006 is held under medium-term lease and is situated outside Hong Kong.

At 31st July, 2006, the Group's prepaid land lease payments with a carrying amount of HK$31,176,000 (2005: HK$14,550,000) were pledged to bank to secure banking facilities granted to the Group (note 25).

16. INVESTMENT PROPERTIES

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Carrying amount at beginning of year	**3,808,700**	3,207,980	**2,591,600**	2,201,200
Additions, at cost	**909**	1,171	**909**	1,171
Fair value gain	**315,091**	599,549	**204,991**	389,229
Carrying amount at end of year	**4,124,700**	3,808,700	**2,797,500**	2,591,600

16. INVESTMENT PROPERTIES (continued)

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long leases	**1,320,000**	1,210,000	**—**	—
Medium-term leases	**2,804,700**	2,598,700	**2,797,500**	2,591,600
	4,124,700	3,808,700	**2,797,500**	2,591,600

At 31st July, 2006, the investment properties were stated at their aggregate open market value of HK$4,124,700,000, based on their existing use with reference to a valuation performed by Savills Valuation and Professional Services Limited, independent chartered surveyors, on 31st July, 2006.

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

All investment properties of the Group and the Company were leased out under operating leases, further summary details of which are included in note 35(a) to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK$4,113,000,000 (2005: HK$3,798,000,000) and HK$2,793,000,000 (2005: HK$2,588,000,000), respectively, were pledged to banks to secure banking facilities granted to the Group (note 25).

At 31st July, 2006, an investment property of the Group with a carrying amount of HK$4,500,000 was pledged to a bank to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by the bank to a subsidiary of the Company.

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

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17. PROPERTIES UNDER DEVELOPMENT

	Group	
	2006	2005
	HK$'000	HK$'000
At beginning of year	**1,462**	1,424
Additions	**59,735**	38
At end of year	**61,197**	1,462

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

	Group	
	2006	2005
	HK$'000	HK$'000
Long leases	**59,735**	—
Medium-term leases	**1,462**	1,462
	61,197	1,462

18. GOODWILL

	Group
	HK$'000
Cost:	
At 1st August, 2004, 31st July, 2005, 1st August, 2005 and 31st July, 2006	8,583
Accumulated impairment:	
At 1st August, 2004	—
Impairment provided for the year — note 7	2,289
At 31st July, 2005 and 1st August, 2005	2,289
Impairment provided for the year — note 7	2,289
At 31st July, 2006	4,578
Net carrying amount:	
At 31st July, 2006	4,005
At 31st July, 2005	6,294

18. GOODWILL (continued)

At 31st July, 2006, the remaining amount of goodwill is relevant to the hotel management operation business unit of which the recoverable amount has been determined based on a value in use calculation using cash flow projections prepared with reference to the revised future management fee income and expenditure budget approved by management covering the unexpired remaining term of the relevant hotel management contract. The discount rate applied to the cash flow projections is 11% (2005: 11%).

19. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**1,167,416**	1,167,416
Amounts due from subsidiaries	**5,144,040**	5,485,814
Amounts due to subsidiaries	**(1,588,105)**	(1,786,524)
	4,723,351	4,866,706
Provision for impairment	**(3,364,219)**	(3,359,486)
	1,359,132	1,507,220

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries as at 31st July, 2006 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered and paid-up capital	Class of shares held	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Chains Caravelle Hotel Joint Venture Company Limited ("CCHJV")	Vietnam	US$23,175,577	*	—	26.01**	Hotel operations
Diamond String Limited ("Diamond String")	Hong Kong	HK$10,000	Ordinary	—	65.00	Hotel and restaurant operations

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19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered and paid-up capital	Class of shares held	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Furama Hotel Enterprises Limited ("FHEL")	Hong Kong	HK$102,880,454	Ordinary	—	100.00	Investment holding
Gilroy Company Limited	Hong Kong	HK$10,000	Ordinary	100.00	—	Property investment
Glynhill Hotels and Resorts (Vietnam) Pte. Ltd.	Singapore	S$2	Ordinary	—	100.00	Provision of management and consultancy services to hotel owners
Kolot Property Services Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property management
Lai Sun International Finance (2004A) Limited ("LSI (2004A)")	British Virgin Islands	US$1	Ordinary	100.00	—	Bond issue
Lai Sun International Finance (2004B) Limited ("LSI (2004B)")	Hong Kong	HK$2	Ordinary	100.00	—	Bond issue
Lai Sun Real Estate Agency Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property management and real estate agency
Milirich Investment Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property development

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19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered and paid-up capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Peakflow Profits Limited ("Peakflow")	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Transformation International Limited ("TIL")	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Transtrend Holdings Limited	Hong Kong	HK$20	Ordinary	—	100.00	Investment holding
Vutana Trading Investment (No. 2) Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	100.00	Investment holding

* This subsidiary has registered rather than issued share capital.

** CCHJV is regarded as a subsidiary of the Group because the Group has control over its financial and operating policies.

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 particular of excessive length.

As at 31st July, 2006, the Group via Peakflow held a 10% equity interest in Bayshore Development Limited ("Bayshore"), the principal activity of which is property investment. The entire interest in Peakflow was pledged to another shareholder of Bayshore to secure a loan facility granted to the Group (note 21).

Shares of certain other subsidiaries held by the Group were also pledged to banks to secure banking facilities granted to the Group (note 25).

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19. INTERESTS IN SUBSIDIARIES (continued)

Disposal of Furama Resort

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

The principal asset held by FIHL was its indirect 62.625% equity interest in the capital contribution of Indochina Beach Hotel Joint Venture Limited, which held and operated the Furama Resort, Danang, Vietnam. The Furama Resort Disposal constituted a discloseable transaction for the Company under the Listing Rules. The Furama Resort Disposal was completed on 8th July, 2005, further details of which are set out in note 32(b) to the financial statements. The cash consideration, after deducting the related expenses, was used for the repayment of the A Bonds (note 26(ii)).

20. INTERESTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**—**	—	**342,579**	342,579
Share of net assets	**873,990**	674,697	**—**	—
Goodwill on acquisition	**44,086**	44,086	**—**	—
	918,076	718,783	**342,579**	342,579
Amounts due from associates	**368,901**	683,255	**203,496**	203,068
Amounts due to associates	**(15,132)**	(228,420)	**(3)**	(3)
	1,271,845	1,173,618	**546,072**	545,644
Provision for impairment	**(156,015)**	(153,538)	**(194,246)**	(190,844)
	1,115,830	1,020,080	**351,826**	354,800
Market value of listed shares at the balance sheet date	**1,841,558**	519,633	**—**	—

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

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

20. INTERESTS IN ASSOCIATES (continued)

The eSun Loan

In prior years, the Company and FHEL entered into a settlement agreement with eSun (the "eSun Settlement Agreement") in connection with the settlement of an amount payable to GPEL of approximately HK$1,500 million (the "eSun Settlement"). The eSun Settlement Agreement included an agreed settlement premium of approximately HK$1,345 million, which was settled to eSun upon the completion of the eSun Settlement Agreement on 7th December, 2004.

Pursuant to the eSun Settlement Agreement, the eSun Settlement comprised (i) a cash repayment of HK$20 million; (ii) a 5-year secured interest-bearing term loan in the principal amount of HK$225 million owed by FHEL to GPEL (the "eSun Loan"); and (iii) the issuance of 5,200 million shares of the Company at the par value of HK$0.50 each (the "eSun Settlement Shares") (note 28).

For the year ended 31st July, 2005, the Group incurred a loss of HK$1,227 million arising from the eSun Settlement, which comprised an agreed settlement premium of HK$1,345 million, which was partly offset by the write back of accrued overdue interest of HK$118 million as such overdue interest was waived by eSun upon completion of the eSun Settlement.

At 31st July, 2005, the eSun Loan was included in the amounts due to associates, which bore interest at a rate of 4.5% per annum, and was repayable five years after 7th December, 2004. The eSun Loan was secured by a share of a limited recourse second charge over 6,500 shares of HK$100 each in Diamond String, which owns the Ritz-Carlton, Hong Kong (the "Ritz-Carlton Security") on a pari passu and pro rata basis with the Bondholders (as defined in note 26(i) to the financial statements). The eSun Loan was fully repaid during the current year.

Particulars of the principal associates as at 31st July, 2006 are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Bushell Limited	Corporate	Hong Kong	Ordinary	50.00	Property development
East Asia Entertainment Limited	Corporate	Hong Kong	Ordinary	34.83	Entertainment activity production
East Asia Satellite Television Limited	Corporate	Hong Kong	Ordinary	34.83	Programme production, distribution, broadcasting and other related services

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20. INTERESTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
East Asia — Televisão Por Satélite, Limitada #	Corporate	Macau	Quota	34.83	Investment holding
eSun Holdings Limited	Corporate	Bermuda/ Hong Kong	Ordinary	34.83	Investment holding
Fortune Sign Venture Inc. ("Fortune Sign")	Corporate	British Virgin Islands/ Hong Kong	Ordinary	50.00	Investment holding
Kippford Enterprises Limited ("Kippford")	Corporate	Hong Kong	Ordinary	50.00	Property development
Majestic Hotel Enterprises Limited	Corporate	Hong Kong	Ordinary	50.00	Hotel and restaurant operations
Majestic Centre Limited	Corporate	Hong Kong	Ordinary	50.00	Property investment

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

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

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20. INTERESTS IN ASSOCIATES (continued)

The financial year ends of the above associates are coterminous with that of the Group, except for the eSun Group and Kippford which have their financial years ending on 31st December, and Fortune Sign and its subsidiaries (collectively the "Fortune Sign Group") which have their financial years ending on 31st March. For equity accounting purpose of the Group, Kifford and Fortune Sign Group prepare their financial statements as at 31st July and eSun Group prepares its financial statements as at 30th June. The consolidated financial statements of the Group are adjusted for any material transactions of eSun Group between 30th June and 31st July.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts/financial statements:

	2006	2005
	HK$'000	HK$'000
Assets	**3,833,997**	4,066,345
Liabilities	**1,838,842**	2,735,857
Turnover	**1,075,613**	926,222
Profit	**252,907**	690,987

The eSun Group

Included in the Group's interests in associates at 31st July, 2006 is the Group's share of net assets of the eSun Group of HK$875,991,000 (2005: HK$760,976,000).

At 30th June, 2006, the film rights held by the eSun Group amounted to HK$179,039,000 which represented all rights, titles and interests in 127 films (the "127 Film Rights") valued at HK$187,187,000 as at 31st December, 2005. The directors of eSun had engaged an independent third party (the "Valuer") to perform a valuation (the "Valuation") on the 127 Film Rights as at 31st December, 2005. Having regard to the Valuation performed by the Valuer and the current market conditions, the directors of eSun are of the opinion that there was no impairment on these film rights as at 30th June, 2006.

With respect to the financial statements of the eSun Group for the year ended 31st December, 2005, the auditors of eSun stated in their report that they had been unable to obtain sufficient reliable information to carry out the audit procedures required by Hong Kong Standard on Auditing 620 "Using the Work of an Expert" issued by the HKICPA, to satisfy themselves as to (a) the competence and objectivity of the Valuer; and (b) the adequacy of the scope of the Valuer's work on the 127 Film Rights. They stated that they were unable to carry out adequate audit procedures to assess the carrying amount of the 127 Film Rights as at 31st December, 2005. They were also unable either to obtain sufficient reliable information, or to carry out alternative audit procedures to satisfy themselves as to the appropriateness of the basis of computation of the amount of the amortisation charge for the 127 Film Rights.

Due to the scope limitation in the evidence available to the auditors of eSun, a qualified opinion was issued on the financial statements of the eSun Group for the year ended 31st December, 2005.

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20. INTERESTS IN ASSOCIATES (continued)

The eSun Group (continued)

On 19th May, 2005, eSun issued 74,000,000 new shares to an independent investor for an aggregate net proceeds of approximately HK$150 million and the Group's interests in eSun was diluted from 42.54% to 38.31%. On 29th March, 2006, eSun issued 74,518,000 new shares to independent investors for an aggregate net proceeds of approximately HK$425 million and the Group's interests in eSun was further diluted from 38.31% to 34.83%.

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale investments, at fair value:				
Unlisted equity investments	**92,002**	93,000	**—**	—
Unlisted debt investments	**411,012**	450,590	**59,954**	104,443
	503,014	543,590	**59,954**	104,443
Unlisted equity investments, at cost	**196,732**	196,732	**3,101**	3,101
Provision for impairment	**(180,574)**	(180,574)	**(3,000)**	(3,000)
	16,158	16,158	**101**	101
	519,172	559,748	**60,055**	104,544

The fair value of the unlisted investments have been estimated using either the present value of the estimated future cash flows expected to be generated by the underlying property development projects, including cash flows from their operations and the proceeds on the ultimate disposal of the underlying projects with reference to the prevailing property market conditions in Hong Kong as at 31st July, 2006, or with reference to the market value of the underlying properties held by the investee companies.

As at 31st July, 2006, included in available-for-sale investments at fair value was the equity and debt interests in Bayshore with an aggregate amount of HK$442,894,000 (2005: HK$419,980,000), which had been pledged to Grand Design Development Limited, another shareholder of Bayshore, to secure a loan facility granted to the Group.

22. COMPLETED PROPERTIES FOR SALE

The completed properties for sale are carried at the lower of cost and estimated sale proceeds less costs to be incurred for disposal as at the balance sheet date.

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

(a) The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Hotel and restaurant charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements. In view of the aforementioned and the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade debtors are non-interest-bearing.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Trade debtors:		
Less than 30 days	**20,494**	22,456
31 — 60 days	**2,730**	4,370
61 — 90 days	**614**	1,506
Over 90 days	**5,692**	6,956
	29,530	35,288
Other debtors and deposits	**79,233**	104,275
	108,763	139,563

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

	Group	
	2006	2005
	HK$'000	HK$'000
Trade creditors:		
Less than 30 days	**12,942**	11,023
31 — 60 days	**1,543**	1,758
61 — 90 days	**258**	332
Over 90 days	**384**	467
	15,127	13,580
Other creditors, deposits received and accruals	**185,310**	236,757
	200,437	250,337

The trade creditors are non-interest-bearing and are normally settled on 30-day terms.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**135,620**	118,006	**48,950**	15,447
Time deposits	**361,756**	398,806	**267,232**	281,382
	497,376	516,812	**316,182**	296,829
Pledged bank balances	**(5,642)**	(6,896)	**(5,642)**	(6,896)
Pledged time deposits	**(90,010)**	(63,465)	**(90,010)**	(63,465)
Pledged bank balances and time deposits	**(95,652)**	(70,361)	**(95,652)**	(70,361)
Cash and cash equivalents	**401,724**	446,451	**220,530**	226,468

Pledged bank balances and time deposits are classified as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts classified as current assets:				
Time deposits pledged to support certain corporate guarantees issued by the Company in respect of certain banking facilities granted by a bank to a subsidiary and an associate of the Group	**—**	8,020	**—**	8,020
Current portion	**—**	8,020	**—**	8,020
Amounts classified as non-current assets:				
Amounts pledged for long term bank borrowings:				
Bank balances	**5,642**	6,896	**5,642**	6,896
Time deposits	**90,010**	55,445	**90,010**	55,445
Non-current portion	**95,652**	62,341	**95,652**	62,341
	95,652	70,361	**95,652**	70,361

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

At the balance sheet date, cash and bank balances of the Group denominated in Vietnamese Dong ("VND") amounted to approximately HK$5,218,000 (2005: HK$5,793,000). The VND is not freely convertible into other currencies. However, under the Regulations on Foreign Exchange Control of the Socialist Republic of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorised to conduct foreign exchange business.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Current						
Bank borrowings — secured	4.86 — 8.48	2007	**109,453**	74,379	**85,000**	52,500
Other borrowings — secured	9.40	2007	**200,388**	30,856	**—**	5,000
			309,841	105,235	**85,000**	57,500
Non-current						
Bank borrowings — secured	4.86 — 8.48	2008 — 2012	**2,234,551**	2,383,121	**1,822,600**	1,907,600
Other borrowings — secured			**—**	200,388	**—**	—
			2,234,551	2,583,509	**1,822,600**	1,907,600
			2,544,392	2,688,744	**1,907,600**	1,965,100
Analysed into:						
Bank borrowings repayable:						
Within one year			**109,453**	74,379	**85,000**	52,500
In the second year			**386,314**	109,453	**118,000**	85,000
In the third to fifth years, inclusive			**1,808,847**	2,157,838	**1,704,600**	1,822,600
Beyond five years			**39,390**	115,830	**—**	—
			2,344,004	2,457,500	**1,907,600**	1,960,100
Other borrowings repayable:						
Within one year			**200,388**	30,856	**—**	5,000
In the second year			**—**	200,388	**—**	—
			200,388	231,244	**—**	5,000
			2,544,392	2,688,744	**1,907,600**	1,965,100

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31st July, 2006

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The Group's bank and other borrowings as at 31st July, 2006 are secured by:

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

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

(iii) charges over certain bank balances and time deposits of the Group (note 24); and

(iv) shares of certain subsidiaries held by the Group.

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

26. BONDS PAYABLE

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Exchangeable Bonds and Convertible Bonds:			
At beginning of year		**—**	1,528,421
Settled during the year	(i)	**—**	(1,528,421)
At end of year		**—**	—
A Bonds:			
At beginning of year		**2,660**	—
Arising from the Bonds Settlement	(ii)	**—**	266,058
Repaid during the year		**—**	(263,398)
At end of year		**2,660**	2,660
B Bonds:			
At beginning of year		**37,492**	—
Arising from the Bonds Settlement	(iii)	**—**	70,059
Cancellation of bond payables credited to the consolidated income statement	(iii)	**(37,492)**	(32,567)
At end of year		**—**	37,492
Total bonds payable		**2,660**	40,152

26. BONDS PAYABLE (continued)

Notes:

(i) In prior years, the Company reached an agreement with and obtained the approval from the holders of exchangeable bonds and convertible bonds (the "Bondholders") concerning the settlement of HK$881 million payable under the exchangeable bonds (principal amount of HK$622 million and accrued bond redemption premium of HK$259 million) (the "Exchangeable Bonds") and of HK$1,260 million payable under the convertible bonds (principal amount of HK$907 million and accrued bond redemption premium of HK$353 million) (the "Convertible Bonds") together with their accrued interests of HK$138 million owed by the Group to the Bondholders (the "Bonds Settlement").

The Bonds Settlement included the total amount of approximately HK$2,279 million payable under the Exchangeable Bonds and the Convertible Bonds (collectively defined as the "Bonds"), and an agreed settlement premium of approximately US$33 million (equivalent to approximately HK$257 million).

The Bonds Settlement was completed on 7th December, 2004 (the "Completion"). Pursuant to the Bonds Settlement, the Bonds were settled by (i) cash repayments of US$38 million (equivalent to approximately HK$300 million); (ii) the residual principal indebtedness in the amount of approximately HK$266 million (the "A Bonds") and a further principal amount of approximately HK$70 million (the "B Bonds"). Both the A Bonds and the B Bonds were secured and interest-free, further details of which are set out in notes 26(ii) and 26(iii) to the financial statements; and (iii) the issuance of approximately 3,800 million shares of the Company at the par value of HK$0.50 each (the "Bonds Settlement Shares") (note 28). Further details of the Bonds Settlement Shares are set out in note 26(iii) to the financial statements.

For the year ended 31st July, 2005, the Group incurred a loss of HK$257 million arising from the Bonds Settlement which represented the amount of settlement premium paid.

(ii) As detailed in note 26(i) to the financial statements, the A Bonds were issued by LSI (2004A) to the Bondholders pursuant to the Bonds Settlement. The A Bonds were interest-free and repayable on or before 31st December, 2005. The maturity date of the A Bonds was extended to 31st December, 2006 upon fulfillment of certain conditions pursuant to the terms of the A Bonds. The A Bonds were secured by, inter alia, (a) charges over the Group's entire 26.01% interest in Caravelle Hotel, Ho Chi Minh City, Vietnam and assignment of all relevant shareholders' loans owed to the Group (the "Caravelle Interest"), (b) charges over the Group's entire 62.625% interest in the Furama Resort, Danang, Vietnam and assignment of all relevant shareholders' loans owed to the Group (the "Furama Danang Interest"), (c) charges over the Group's entire 10% interest in the Waterfront, Hong Kong and assignment of all relevant shareholders' loans owed to the Group (the "Waterfront Interest") (collectively, the "Three Planned Sale Interests"), (d) the Ritz-Carlton Security; and (e) a charge over the Group's interest in eSun, and were guaranteed by the Company for full repayment (note 34(a)).

Pursuant to the Bonds Settlement, in the event that the aggregate proceeds from the disposal of the Three Planned Sale interests exceeds the principal amount of the A Bonds, the excess amount should be shared between the holders of the A Bonds and the Group on a 70:30 basis.

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

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

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

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

Notes to Financial Statements

31st July, 2006

26. BONDS PAYABLE (continued)

Notes: (continued)

(ii) (continued)

During the prior year, out of the total amount paid by the Group, HK$263,398,000 was used to settle the A Bonds, and an amount of HK$2,660,000 representing the residual principal amount of the A Bonds was retained by the Security Trustee for the account of the holders of the A Bonds pursuant to the terms of the A Bonds. The residual principal shall be distributed to the holders of the A Bonds together with the final distribution of the 70% of the net proceeds from the sale, disposal or valuation of the remaining assets under the Three Planned Sale Interests in accordance with the terms and conditions of the A Bonds. The funds derived from the Three Planned Sale Interests during the prior year had exceeded the principal amount of the A Bonds and were shared between the holders of the A Bonds and the Group on a 70:30 basis. Accordingly, a surplus amount of HK$14,725,000 was paid to the holders of the A Bonds upon the disposal of the Furama Danang Interest.

As at 31st July, 2005, an amount of HK$121,800,000 representing a 70% provision of the excess amount of the net estimated realisable value of the two remaining interests of the Three Planned Sale Interests and the net proceeds so far generated from the Three Planned Sale Interests over the initial outstanding amount of the A Bonds, was provided for in the accounts.

During the year, the Group elected to extinguish its obligations in respect of the A Bonds insofar as they relate to the Caravelle Interest by making a cash payment of HK$29,680,000 based on 70% of the open market valuation of the Caravelle Interest, as determined by an independent property appraiser in accordance with the terms of the A Bonds. In addition, an amount of HK$34,912,000, which was funded by various distributions from the Waterfront Interest, was paid to the holders of A Bonds. Consequently, the Group's contingent liabilities to the holders of A Bonds was reduced by HK$64,592,000.

As at 31st July, 2006, an amount of HK$52,360,000 representing a 70% provision of the share of the net estimated realisable value of the remaining Waterfront Interest was provided for in the accounts and an overprovision of contingent liabilities of HK$4,848,000 was reversed and was credited to the consolidated income statement during the year.

Subsequent to 31st July, 2006, the Group elected to extinguish its remaining obligations in respect of the A Bonds insofar as they relate to the Waterfront Interest by making a cash payment of HK$35,560,000 based on 70% of the open market valuation of the Waterfront Interest, as determined by an independent property appraiser in accordance with the terms of the A Bonds. In addition, there was distribution of HK$24 million from the Waterfront Interest of which HK$16,800,000, being 70% of such distribution, is attributable to the holders of A Bonds. Taking into account the 10% residual principal of approximately HK$2,660,000, the Security Trustee had made a final distribution in the amount of approximately HK$55,020,000 to the holders of the A Bonds. Following the aforesaid final distribution made in October 2006, all remaining obligations under the A Bonds were fully satisfied and the provision for contingent liabilities of A Bonds of HK$52,360,000 was fully settled.

(iii) As detailed in note 26(i) to the financial statements, the B Bonds were issued by LSI (2004B) pursuant to the Bonds Settlement. The B Bonds were interest-free, secured by the Ritz-Carlton Security, were guaranteed by the Company for full repayment (note 34), and are repayable on or before 31st December, 2005.

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

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

Notes to Financial Statements

26. BONDS PAYABLE (continued)

Notes: (continued)

(iii) (continued)

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

No holders of the B Bonds exercised their rights to put to Mr. Peter Lam for the First Tranche Shares, and the rights lapsed on 6th March, 2005.

The Group is liable to settle the B Bonds if Mr. Peter Lam fails to purchase all or any of the Second Tranche Shares pursuant to the exercise of the put rights afforded to the respective bondholders.

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

During the prior year, certain of the holders of the B Bonds had transferred a total of 1,301,343,612 Second Tranche Shares which reduced the B Bonds' outstanding principal balance by HK$32,567,000 to HK$37,492,000 as at 31st July, 2005.

During the period from 1st August, 2005 to 30th November, 2005, certain holders of the B Bonds had further transferred their Second Tranche Shares to third parties. At 1st December, 2005, the remaining holders of the B Bonds elected to retain their remaining Second Tranche Shares. Accordingly, the outstanding liability under the B Bonds of HK$37,492,000 was fully released during the year.

27. DEFERRED TAX

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

Group

	Revaluation of investment properties HK$'000	Accelerated capital allowances HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st August, 2004	(395,925)	(80,091)	78,424	36,330	(361,262)
Deferred tax debited to the consolidated income statement during the year — note 11	(104,865)	(4,010)	(45,289)	(36,330)	(190,494)
At 31st July, 2005 and 1st August, 2005	(500,790)	(84,101)	33,135	—	(551,756)
Deferred tax credited/(debited) to the consolidated income statement during the year — note 11	(55,282)	(3,565)	(16,083)	1,586	(73,344)
At 31st July, 2006	(556,072)	(87,666)	17,052	1,586	(625,100)

Notes to Financial Statements

31st July, 2006

27. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of HK$909,159,000 (2005: HK$913,436,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as such losses are not probable to be utilised in the foreseeable future.

Company

	Revaluation of investment properties HK$'000	Accelerated capital allowances HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1st August, 2004	(302,967)	(34,951)	52,359	36,330	(249,229)
Deferred tax debited to the income statement during the year	(68,115)	(1,548)	(38,634)	(36,330)	(144,627)
At 31st July, 2005 and 1st August, 2005	(371,082)	(36,499)	13,725	—	(393,856)
Deferred tax debited to the income statement during the year	(36,033)	(3,054)	(4,629)	—	(43,716)
At 31st July, 2006	(407,115)	(39,553)	9,096	—	(437,572)

28. SHARE CAPITAL

	Number of shares 2006 '000	**Nominal value 2006 HK$'000**	Number of shares 2005 '000	Nominal value 2005 HK$'000
Authorised:				
Ordinary shares of HK$0.50 each	**16,000,000**	**8,000,000**	16,000,000	8,000,000
Preference shares of HK$1.00 each	**1,200,000**	**1,200,000**	1,200,000	1,200,000
		9,200,000		9,200,000
Issued and fully paid:				
Ordinary shares of HK$0.50 each	**12,746,042**	**6,373,021**	12,746,042	6,373,021

28. SHARE CAPITAL (continued)

Pursuant to an ordinary resolution passed on 13th October, 2004, the authorised share capital of the Company was increased from HK$5,000,000,000 to HK$8,000,000,000 by the creation of 6,000,000,000 additional shares of HK$0.50 each, ranking pari passu in all respects with the existing share capital of the Company. On 7th December, 2004, approximately 9,000 million shares were issued at a par value of HK$0.50 per share in relation to the Bonds Settlement (note 26) and the eSun Settlement (note 20).

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

	Number of shares in issue	Issued share capital
	'000	HK$'000
At 1st August, 2004	3,746,002	1,873,001
Issuance of eSun Settlement Shares at HK$0.5 each (note 20)	5,200,000	2,600,000
Issuance of Bonds Settlement Shares at HK$0.5 each (note 26(i))	3,800,040	1,900,020
	9,000,040	4,500,020
At 31st July, 2005, 1st August, 2005 and 31st July, 2006	12,746,042	6,373,021

On 18th October, 2006, the Company effected a capital reduction, details of which are set out in note 36(a) to the financial statements.

29. 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 page 33 of the financial statements.

(b) Company

	Share premium account	Capital redemption reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st August, 2004	5,858,164	1,200,000	(9,421,785)	(2,363,621)
Loss for the year	—	—	(1,645,507)	(1,645,507)
At 31st July, 2005 and 1st August, 2005	5,858,164	1,200,000	(11,067,292)	(4,009,128)
Profit for the year	—	—	106,608	106,608
At 31st July, 2006	5,858,164	1,200,000	(10,960,684)	(3,902,520)

Notes to Financial Statements

31st July, 2006

30. 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, foreign currency risk, credit risk and liquidity 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 has adopted relatively conservative strategies on its risk management and the Group has not used any derivatives and other instruments for hedging purposes during the year. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

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

(ii) Foreign currency risk

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

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

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

(iii) Credit risk

The Group maintains various credit policies for different business operations as described in note 23. In addition, accounts receivable balances are being closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

(iv) Liquidity risk

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

Notes to Financial Statements

31st July, 2006

31. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of all the financial assets and financial liabilities as at 31st July, 2006 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, 2006 and 2005 that are exposed to interest rate risk:

At 31st July, 2006

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000
Floating rate:							
Pledged bank balances	—	—	—	5,642	—	—	5,642
Pledged time deposits	—	—	—	90,010	—	—	90,010
Cash and cash equivalents	401,724	—	—	—	—	—	401,724
Bank and other borrowings	109,453	386,314	152,175	1,619,349	37,323	39,390	2,344,004
Fixed rate:							
Other borrowings	200,388	—	—	—	—	—	200,388

At 31st July, 2005

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

Notes to Financial Statements

31st July, 2006

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

During the year and the prior year, the Group had the following major non-cash transactions:

(i) During the year, the outstanding amount of the B Bonds was cancelled by HK$37,492,000 (2005: HK$32,567,000) upon the holders of the B Bonds transferring or electing to retain the Second Tranche Shares during the year. Further details of the cancellation are set out in note 26(iii) to the financial statements.

(ii) During the year, the addition of prepaid land lease payment of HK$17,611,000 was paid by a minority shareholder of a subsidiary in the form of capital contribution, which did not result in any cash flow to the Group.

(iii) In the prior year, pursuant to the Bonds Settlement and the eSun Settlement as detailed in notes 26 and 20 to the financial statements, respectively, the Group settled the Bonds and the loan due to GPEL by (i) the issue of the A Bonds of approximately HK$266 million; (ii) the issue of the B Bonds of approximately HK$70 million; (iii) the refinancing of the eSun Loan of HK$225 million; and (iv) the issue of approximately 3,800 million of the Bonds Settlement Shares and of 5,200 million of the eSun Settlement Shares, at a price of HK$0.50 per share. These transactions did not result in any cash flow to the Group during the year ended 31st July, 2005.

(iv) In the prior year, a provision of HK$29,375,000 for premium on loan repayment was refinanced as other borrowings with an extended repayment term.

(b) Disposal of subsidiaries

	Notes	**2006 HK$'000**	2005 HK$'000
Net assets disposed of:			
Property, plant and equipment	14	—	126,231
Prepaid land lease payments	15	—	14,355
Inventories		—	2,231
Debtors and deposits		—	4,172
Cash and cash equivalents		—	40,381
Creditors, deposits received and accruals		—	(23,744)
Minority interests		—	(25,303)
Release of exchange fluctuation reserve		—	(35)
		—	138,288
Loss on disposal		—	(7,752)
		—	130,536
Satisfied by:			
Cash		—	130,536

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

(b) Disposal of subsidiaries (continued)

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

	2006	2005
	HK$'000	HK$'000
Cash consideration received	—	130,536
Cash and cash equivalents disposed of	—	(40,381)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	90,155

The subsidiaries disposed of during the prior year contributed turnover of HK$54,740,000 and profit for the year attributable to equity holders of the Company of HK$3,319,000 to the consolidated income statement for the prior year.

33. COMMITMENTS

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

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments — contracted, but not provided for	**9,803**	7,777	**3,683**	7,777

Notes to Financial Statements

31st July, 2006

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**—**	—	**356,388**	382,244
Associates	**232,300**	294,380	**232,300**	294,380
	232,300	294,380	**588,688**	676,624
Guarantees given in connection with the issue of the A Bonds	**—**	—	**2,660**	2,660
Guarantees given in connection with the issue of the B Bonds	**—**	—	**—**	37,492
	232,300	294,380	**591,348**	716,776

(b) Pursuant to certain indemnity deeds dated 12th November, 1997 entered into between the Company and Lai Fung Holdings Limited ("Lai Fung"), the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax ("LAT") payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 31st October, 1997 (the "Property Interests"). These tax indemnities given by the Company apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited, independent chartered surveyors, as at 31st October, 1997 (the "Valuation"); and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The indemnity deeds assume that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on The Stock Exchange of Hong Kong Limited (the "Listing"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18th November, 1997. Lai Fung had no LAT payable in respect of the Property Interests during the year. No income tax payable by Lai Fung was indemnifiable by the Company during the year.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**165,011**	159,777	**124,062**	117,361
In the second to fifth years, inclusive	**106,214**	109,830	**67,599**	80,393
	271,225	269,607	**191,661**	197,754

(b) As lessee

The Group leases certain properties under operating lease arrangements, with leases of original terms ranging from four to five years.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**913**	926	**913**	926
In the second to fifth years, inclusive	**—**	—	**—**	—
	913	926	**913**	926

Notes to Financial Statements

31st July, 2006

36. POST BALANCE SHEET EVENTS

Other than those disclosed elsewhere in the financial statements, the Group had the following post balance sheet events.

(a) Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 24th July, 2006, and the subsequent Order of the High Court of Hong Kong granted on 17th October, 2006, the Company effected a capital reduction (the "Capital Reduction") which took effect on 18th October, 2006. The paid-up capital on each of its issued ordinary shares of HK$0.50 was cancelled to the extent of HK$0.49 per share, and the nominal value of all of the ordinary shares of the Company, both issued and unissued, was reduced from HK$0.50 per share to HK$0.01 per share. A total credit of HK$6,245,561,000 was arisen as a result of the Capital Reduction. An amount of HK$5,619,000,000 of the total credit was credited to the accumulated losses of the Company and the remaining amount of HK$626,561,000 was credited to the share premium account of the Company.

An undertaking in standard terms was given to the High Court by the Company in connection with the Capital Reduction. The undertaking is for the benefit of the Company's creditors as at the effective date of the Capital Reduction. Pursuant to the undertaking, any receipts by the Company on or after 1st August, 2005 in respect of the Company's:

(1) 50% investment in Fortune Sign, up to an aggregate amount of HK$1,556,000,000;

(2) 10% investment in Bayshore, up to an aggregate amount of HK$2,923,000,000; and/or

(3) 100% investment in FHEL, up to an aggregate amount of HK$1,140,000,000,

shall be credited to a special capital reserve in the accounting records of the Company. While any debt of or claim against the Company as at 18th October, 2006 (the effective date of the Capital Reduction) remains outstanding, and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve pursuant to Section 79C of the Hong Kong Companies Ordinance.

The undertaking is subject to the following provisos:

(i) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration upon a capitalisation of distributable reserves after 18th October, 2006;

(ii) the aggregate limit in respect of the special capital reserve may be reduced after the disposal or other realisation of any of the assets the subject of the undertaking (as referred to at (1) to (3) above) by the amount of the individual limit for the asset in question less such amount (if any) as is credited to the special capital reserve as a result of such disposal or realisation; and

36. POST BALANCE SHEET EVENTS (continued)

(a) (continued)

(iii) in the event that the amount standing to the credit of the special capital reserve exceeds the limit thereof, after any reduction of such limit pursuant to proviso (ii) above, the Company shall be at liberty to transfer the amount of such excess to the general reserves of the Company and the same shall become available for distribution.

(b) On 5th September, 2006, Key Point Profits Limited, a wholly-owned subsidiary of the Company, entered into a shareholders agreement (the "Shareholders Agreement") with Pine Capital Investments Limited ("Pine Capital"), an independent third party, for the establishment of Lucky Result Limited ("Lucky Result"), a joint venture company. Pursuant to the Shareholders Agreement, the Company will hold a 50% effective interest in Brilliant Pearl Limited (the "Project Company"), a wholly-owned subsidiary of Lucky Result.

The Project Company has entered into a sale and purchase agreement on the same date for the acquisition of a site situated at Wanchai, Hong Kong (the "Property") for HK$595 million. The Project Company will be engaged in the acquisition and redevelopment of the Property. Further details of transactions are set out in the Company's circular dated 28th September, 2006.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10th November, 2006.