



LAI SUN DEVELOPMENT

LAI SUN DEVELOPMENT COMPANY LIMITED

(Stock code: 488)

Annual Report 2006-2007

## Contents

|     |   |
|-----|---|
| 2   | Corporate Profile                           |
| 3   | Corporate Information                       |
| 4   | Chairman's Statement                        |
| 15  | Report of the Directors                     |
| 32  | Corporate Governance Report                 |
| 36  | Independent Auditors' Report                |
| 38  | Consolidated Income Statement               |
| 39  | Consolidated Balance Sheet                  |
| 41  | Consolidated Statement of Changes in Equity |
| 43  | Consolidated Cash Flow Statement            |
| 46  | Balance Sheet                               |
| 47  | Notes to Financial Statements               |
| 112 | Notice of Annual General Meeting            |



## Lai Sun Development Company Limited

11/F Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

**Tel** (852) 2741 0391 **Fax** (852) 2785 2775

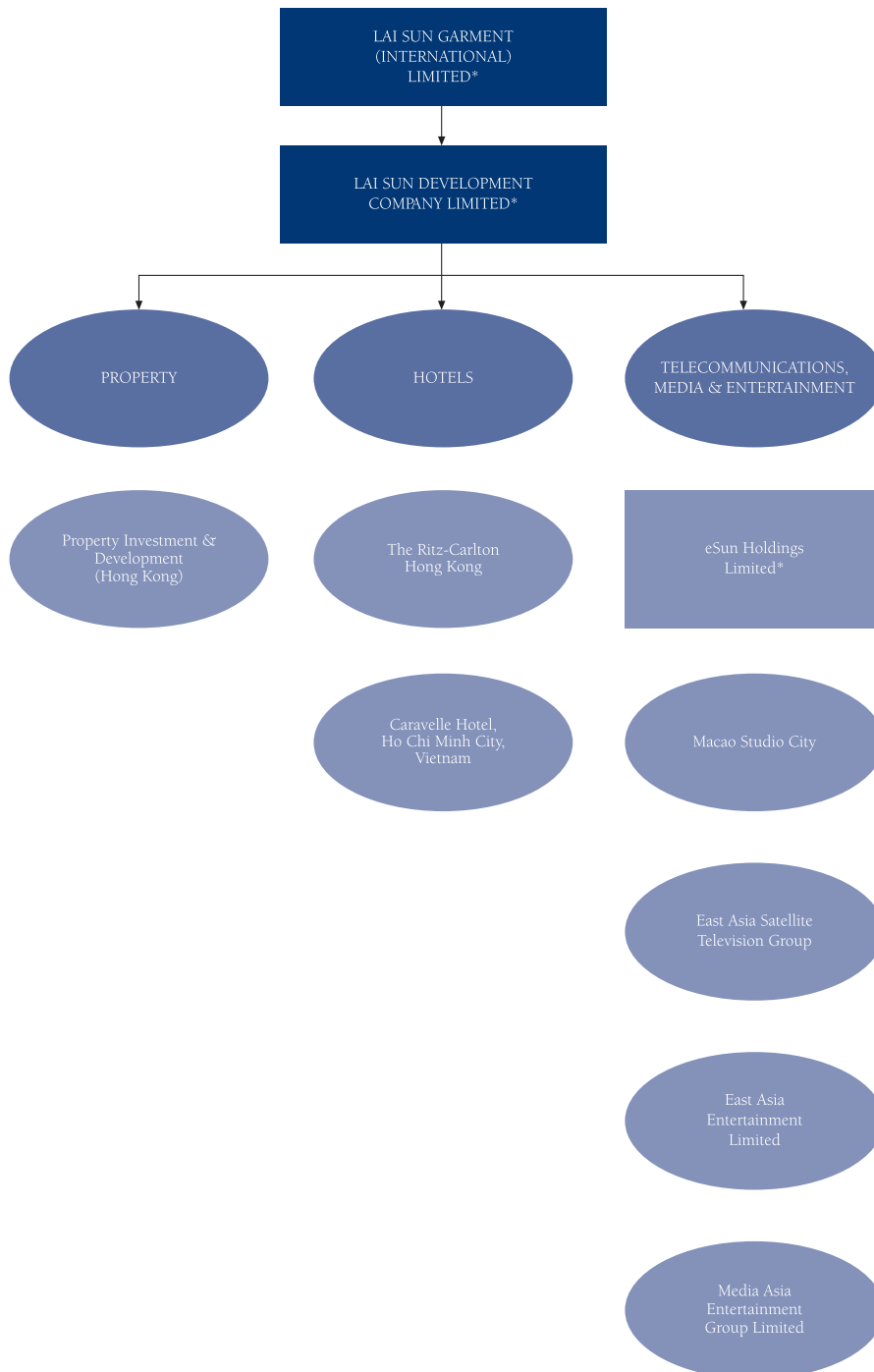
**Website** <http://www.laisun.com>

**E-mail** [advpr@laisun.com](mailto:advpr@laisun.com)

*Stock code on Hong Kong Stock Exchange: 488*

# Corporate Profile

Lai Sun Development Company Limited is a member of the Lai Sun Group which obtained its first listing on the Hong Kong stock exchange in late 1972. The Company is well diversified and its principal activities include property development, property investment, hotels, telecommunications, media and entertainment. The Company was listed on the The Stock Exchange of Hong Kong Limited in March 1988 following a reorganisation of the Group.



\* Listed on the Main Board of The Stock Exchange of Hong Kong Limited

# Corporate Information

## Place of Incorporation

Hong Kong

## Directors

Lam Kin Ngok, Peter (*Chairman*)  
 Lau Shu Yan, Julius (*Chief Executive Officer*)  
 Tam Kin Man, Kraven  
 Cheung Wing Sum, Ambrose  
 Cheung Sum, Sam  
 Leung Churk Yin, Jeanny  
 Lam Kin Ming  
 U Po Chu  
 David Tang  
 Lam Bing Kwan  
 Leung Shu Yin, William

## Secretary and Registered Office

Yeung Kam Hoi  
 11th Floor  
 Lai Sun Commercial Centre  
 680 Cheung Sha Wan Road  
 Kowloon  
 Hong Kong

## Qualified Accountant

Sze Ka Ming

## Share Registrars

Tricor Tengis Limited  
 26th Floor  
 Tesbury Centre  
 28 Queen's Road East  
 Hong Kong

## Auditors

Ernst & Young  
 Certified Public Accountants  
 18th Floor, Two International Finance Centre  
 8 Finance Street  
 Central  
 Hong Kong

## Solicitors

Richards Butler  
 20th Floor, Alexandra House  
 18 Chater Road  
 Central  
 Hong Kong

Vincent T.K. Cheung, Yap & Co.  
 15th Floor, Alexandra House  
 18 Chater Road  
 Central  
 Hong Kong

Lo & Lo  
 Room 3501, 35th Floor,  
 Gloucester Tower  
 The Landmark  
 11 Pedder Street  
 Central  
 Hong Kong

## Bankers

Bank of China (Hong Kong) Limited  
 Citibank, N.A.  
 Chong Hing Bank Limited  
 Hang Seng Bank Limited  
 Oversea-Chinese Banking Corporation Limited  
 Sumitomo Mitsui Banking Corporation  
 The Bank of East Asia, Limited  
 The Hongkong and Shanghai  
 Banking Corporation Limited

## Chairman's Statement



*Chairman* LAM Kin Ngok, Peter

### OVERVIEW OF FINAL RESULTS

For the year ended 31 July 2007, the Group recorded a turnover of HK\$908,906,000 (2006: HK\$793,807,000), representing an increase of approximately 14.5% from the previous year. The increase was largely due to rental reversion from the Group's investment properties and increase in average daily room rate of the Group's hotel operations.

For the year ended 31 July 2007, the Group recorded a gross profit of HK\$592,188,000 (2006: HK\$523,233,000) and a profit from operating activities of HK\$774,748,000 (2006: HK\$541,956,000), representing an increase of approximately 13.2% and 43% respectively from the previous year. Fair value gain on investment properties was HK\$468,758,000 (2006: HK\$315,091,000).

## Chairman's Statement

For the year ended 31 July 2007, the Group achieved a consolidated profit attributable to equity holders of the Company of HK\$1,495,091,000 (2006: HK\$512,922,000), up by approximately 191.5% from the previous year. Apart from increase in profit from operating activities, net profit was also boosted by the substantial increase in the share of profits from associates. Share of profits from associates was HK\$1,041,340,000 (2006: HK\$107,752,000), up approximately 866.4% from the previous year. The substantial increase in share of profits from associates was due to gain on completion in sale of 60% effective interest in the Macao Studio City project by eSun and disposal of 50% effective interest in Majestic Hotel and Majestic Centre, Kowloon, Hong Kong.

Shareholders' equity as at 31 July 2007 amounted to HK\$6,219,982,000, up from HK\$3,937,214,000 as at 31 July 2006. Net asset value per share as at 31 July 2007 was HK\$0.439, as compared to HK\$0.309 as at 31 July 2006.

### **DIVIDENDS**

The Directors do not recommend payment of a dividend for the year ended 31 July 2007 (2006: Nil).

### **CORPORATE DEVELOPMENTS**

On 17 November 2006, the Company entered into a share placing agreement pursuant to which the Company issued 1,416,000,000 new shares at a placing price of HK\$0.36 per share and raised net proceeds of HK\$504,136,000. Following the issue of the new shares by the Company, the total number of issued shares of the Company increased to 14,162,042,320 shares. As a result, eSun, which held a 40.80% interest in the Company prior to the issue of such new shares, had its interest in the Company diluted to 36.72%. As at 31 July 2007, the Company held a 34.75% interest in eSun, due to its cross-shareholding relationship with eSun.

# Chairman's Statement

## **BUSINESS REVIEW**

### **Investment Properties**

The Group wholly owns three investment properties for rental purposes, i.e. Causeway Bay Plaza 2, Cheung Sha Wan Plaza and Lai Sun Commercial Centre. For the year ended 31 July 2007, aggregate gross rental income from investment properties contributed to the Group's turnover of HK\$299,886,000 (2006: HK\$265,402,000), up approximately 13% from the previous year.

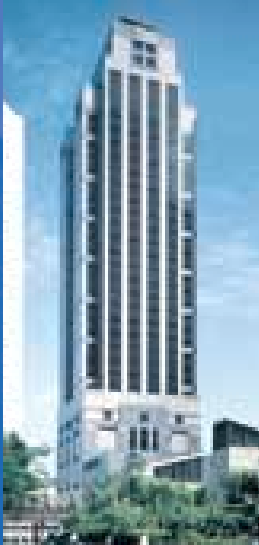
### **Development Properties**

In September 2006, the Group entered into a 50:50 joint venture with a unit of AIG Global Real Estate Investment (Asia) LLC for the joint development of a residential project at Wood Road, Wanchai, Hong Kong. The development has a total gross floor area of approximately 140,000 square feet and a total estimated development cost of about HK\$1,000,000,000.

In June 2007, the Group agreed to purchase a site at Nos. 20, 22, 24, 26 and 28 Tai Po Road, Kowloon, Hong Kong. The development has a total gross floor area of over 60,000 square feet mainly for residential use and a total estimated development cost of about HK\$450,000,000. The Group owns 100% of this development.



Cheung Sha Wan Plaza



The Ritz-Carlton Hong Kong



Causeway Bay Plaza 2



Wood Road Project  
*(architectural rendering)*



Tai Po Road Project  
*(architectural rendering)*



Macao Studio City *(architectural rendering)*



# Chairman's Statement

## Hotel Operations

### Occupancy and average daily room rate

For the year ended 31 July 2007, the Group's hotel operations achieved the following average occupancy and average daily room rate compared to the previous year:

|   | Effective ownership | For the year ended 31 July |                         |                       |                         |
|---|---------------------|----------------------------|-------------------------|-----------------------|-------------------------|
|   |                     | 2007                       |                         | 2006                  |                         |
|   |                     | Average occupancy (%)      | Average daily room rate | Average occupancy (%) | Average daily room rate |
| The Ritz-Carlton Hong Kong  | 75%<br>(2006: 65%)  | 83                         | HK\$2,743               | 85                    | HK\$2,411               |
| Majestic Hotel, Kowloon, Hong Kong (from 1 August 2006 to 17 July 2007, date of completion of the disposal of the Group's interest) | 50%                 | 91                         | HK\$674                 | 93                    | HK\$592                 |
| Caravelle Hotel, Ho Chi Minh City, Vietnam  | 26%                 | 64                         | US\$163                 | 64                    | US\$120                 |

For the year ended 31 July 2007, the Group recorded a turnover of HK\$576,796,000 from hotel operations (2006: HK\$497,202,000), up 16% from the previous year.

### *The Ritz-Carlton Hong Kong*

From January to July 2007, the Group entered into several agreements with minority shareholders of The Ritz-Carlton Hong Kong relating to the increase of the Group's effective ownership stake in The Ritz-Carlton Hong Kong. Pursuant to the completion of these agreements (the last one being completed in September 2007), the Group increased its stake in Diamond String Limited ("Diamond String"), which owns the property of The Ritz-Carlton Hong Kong, from 65% to approximately 76.57% in September 2007.

## Chairman's Statement

During the year, the Group decided to terminate the hotel operations of The Ritz-Carlton Hong Kong in the end of January 2008. Thereafter, the site of The Ritz-Carlton Hong Kong will be available for redevelopment into grade-A office premises.

### *Majestic Hotel Kowloon*

In July 2007, the Group completed its disposal of its 50% interest in Majestic Hotel and Majestic Centre, Kowloon, Hong Kong. The Group received its share of the net sale proceeds of approximately HK\$600,000,000 from the disposal, after repayment of the bank loan secured by the subject property, and recorded a share of gain on such disposal of HK\$398,889,000.

### **eSun**

For the year ended 31 July 2007, share of profits from eSun Holdings Limited ("eSun") was HK\$626,241,000 (2006: HK\$22,274,000), up approximately 2,712% from the previous year largely due to a gain on completion in sale of 60% effective interest in the Macao Studio City project.

Since early 2006, eSun successfully negotiated and lined up "best of breed" world-class partners for development of this mega-size project in Cotai, Macau.

In December 2006, eSun completed the sale of a 40% effective interest in the Macao Studio City project, to its US joint venture partner New Cotai, LLC ("New Cotai"). New Cotai is a consortium of US-based investors including Mr. David Friedman (a veteran resort and gaming developer), Silver Point Capital, L.P., and Oaktree Capital Management, LLC.

In March 2007, eSun completed the sale of a 20% effective interest in the Macao Studio City project, to CapitaLand Integrated Resorts Pte. Ltd. ("CapitaLand Integrated Resorts"). CapitaLand Integrated Resorts is a wholly-owned subsidiary of CapitaLand Limited ("CapitaLand Group"), one of the largest listed real estate companies in Asia. Following completion of the sale to New Cotai and the CapitaLand Group, eSun retains a 40% effective interest in the Macao Studio City project.

## Chairman's Statement

In January 2007, eSun announced the entering into of a memorandum of understanding (“retail MOU”) regarding the retail component of Macao Studio City. Under the retail MOU, Taubman Asia Management Limited (“Taubman Asia”) will be the retail component partner of Macao Studio City. Taubman Asia is a subsidiary of Taubman Centers, Inc., a global leader of the shopping center industry. The retail MOU is subject to definitive legally binding agreement.

During the year, Macao Studio City entered into agreements to build a Ritz-Carlton hotel, a W Hotel, a Marriot hotel and a super-luxury boutique hotel under the brand “The Tang Hotel”, which will be designed by Mr. David Tang, founder of the China Clubs and Shanghai Tang.

In addition, in June 2007, Macao Studio City entered into certain agreements with Playboy Enterprises International, Inc. for the development of the “Playboy Mansion Macao”, a multi-use entertainment venue, within the Macao Studio City venue.

Macao Studio City will be Asia's first leisure resort property combining working TV/film studios, theatre/concert venues, Studio Retail™ (a destination retail complex), Las-Vegas style gaming facilities and world-class hotels. The project will be developed on an approximately 35-acre site strategically located “Where Cotai Begins™”, next to the new Lotus Bridge immigration checkpoint, linking the complex directly to Zhuhai's Hengqin Island. The architectural plan of Macao Studio City is designed by visionary Las Vegas-based design expert Mr. Paul Steelman.

With the track record and international experience of the joint venture partners and component partners, Macao Studio City will provide visitors with a new and unique experience on its world-class leisure resort facilities.

## Chairman's Statement

### PROSPECTS

#### Property investment and development

The Group continues to improve its tenant mix in its investment properties so as to strengthen its rental income base.

The Group continues to build its portfolio in development properties as it invested in two new development projects, Wanchai Wood Road Project and Tai Po Road Project. The Group is also actively looking for new development projects which offer good investment returns.

#### Redevelopment of The Ritz-Carlton Hong Kong

Pursuant to a sale and purchase agreement dated 7 November 2007, the Group together with the other three existing minority shareholders of Diamond String Limited (“Diamond String”) agreed to sell a total of a 40% interest in Diamond String to CCB International Group Holdings Limited (“CCB International”), a wholly-owned subsidiary of China Construction Bank Corporation (“CCB”), for a total consideration of approximately HK\$1,369 million (subject to adjustment). Out of the aforesaid 40% interest, the Group will sell 16.57% interest in Diamond String and will receive a sale consideration of approximately HK\$567 million (subject to adjustment). The transaction price is determined based on HK\$15,800 per square foot in respect of the buildable gross floor area (“GFA”) of the site. The transaction is expected to be completed in December 2007.

Upon completion, the Group and CCB International will hold 60% and 40% interest in Diamond String respectively. Both parties, through Diamond String, will invest in the redevelopment of the site of The Ritz-Carlton Hong Kong into a Grade-A office tower. The buildable GFA for the redevelopment is approximately 225,000 square feet. The preliminary estimated development cost plus interest expenses are approximately HK\$800 million. The Ritz-Carlton Hong Kong will cease operation by the end of January 2008. The redevelopment is expected to be completed in 2011.

The redeveloped office tower will become a landmark property in Central, Hong Kong. Part of the redeveloped property, upon its completion, will be used by CCB as offices of its Hong Kong operations. The Group is very excited to partner with CCB for the redevelopment of The Ritz-Carlton Hong Kong. The partnership with CCB marks a vital move for the future development of the Company.

## Chairman's Statement

### Hotel management

Following the disposal of interest in Majestic Hotel Kowloon and the anticipated redevelopment of The Ritz-Carlton Hong Kong, the Group will only hold hotel ownership stakes in Caravelle Hotel Vietnam. In future, the Group through its hotel management arm, Furama Hotels and Resorts International Limited ("FHRI"), will focus on managing hotel rooms and service apartments in the region, including Greater China and Vietnam. FHRI will utilize its renowned brand and services and will seek to sign new hotel management contracts in the region.

### eSun

eSun's Macao Studio City project will dramatically transform its businesses. Given its mega-scale and its unique positioning in Macau - a new integrated leisure, entertainment, convention and retail centre in Asia, we expect Macao Studio City will stand as the major entertainment destination for visitors from Greater China and other parts of the world. It will become an important platform for the eSun Group to expand and monetarize its entertainment and media expertise. Upon the completion of Macao Studio City project, the eSun Group will become an operator of integrated leisure and entertainment venues as well as a provider of media and entertainment contents and services. On the media and entertainment businesses, the eSun Group will continue to consolidate its position in the media and entertainment industry.

Foundation work of Macao Studio City commenced in April of 2007 and is expected to be fully completed by December 2007. Construction of the superstructure is expected to commence by the end of 2007 or early 2008. First phase of the project is scheduled to open in 2009.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2007, the Group had consolidated net assets of approximately HK\$6,220 million (as at 31 July 2006: HK\$3,937 million).

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank and other borrowings. During the year, the Group raised approximately HK\$504 million by way of placement of new ordinary shares of the Company.

## Chairman's Statement

As at 31 July 2007, the Group had outstanding borrowings of approximately HK\$2,345 million (as at 31 July 2006: HK\$2,547 million) comprising secured bank and other borrowings of approximately HK\$2,345 million (as at 31 July 2006: HK\$2,544 million). Other outstanding borrowings of approximately HK\$3 million as at 31 July 2006 represented the residual amount payable of bond issued by the Group which was fully settled by the Group during the year ended 31 July 2007. The debt to equity ratio as expressed in a percentage of the total outstanding borrowings to consolidated net assets was approximately 38%. The maturity profile of the bank and other borrowings of HK\$2,345 million was spread over a period of less than 5 years with HK\$412 million repayable within 1 year, HK\$178 million repayable in the second year, HK\$1,755 million repayable in the third to fifth years. As at 31 July 2007, approximately 93% of the Group's borrowings were on a floating rate basis and the remaining 7% were at fixed interest rate.

As at 31 July 2007, certain investment properties with carrying amounts of approximately HK\$4,603 million, certain property, plant and equipment with carrying amounts of approximately HK\$1,157 million, a prepaid land lease payment of approximately HK\$30 million and certain bank balances and time deposits with banks of approximately HK\$95 million were pledged to banks to secure banking facilities granted to the Group. In addition, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower, and certain shares in subsidiaries held by the Group were also pledged to banks and other lender to secure loan facilities granted to the Group. Certain shares of an associate held by the Group were pledged to banks for loan facilities granted to an associate of the Group. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars or United States dollars. Considering that the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes that the corresponding exposure to exchange rate risk is nominal.

# Chairman's Statement

## CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at the balance sheet date are set out in note 35 to the financial statements.

## EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,300 (as at 31 July 2006: 1,300) employees as at 31 July 2007. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of retirement benefit schemes for all eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

## APPRECIATION

The Group has continued to show encouraging improvements in its operations and this is greatly to the credit of my colleagues on the Board and all members of management and staff. I would also like to record my appreciation of the continuous support given by our shareholders and business associates during the year.

**Lam Kin Ngok, Peter**  
*Chairman*

Hong Kong  
9 November 2007

# Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2007.

## PRINCIPAL ACTIVITIES

The Group focused on property development for sale, property investment, investment in and operation of hotels and restaurants and investment holding.

The principal activities of the Company for the year consisted of property investment and investment holding.

Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 July 2007 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 38 to 111.

No interim dividend was paid or declared in respect of the year ended 31 July 2007 (2006: Nil).

The directors do not recommend the payment of a final dividend for the year ended 31 July 2007 (2006: Nil) at the forthcoming Annual General Meeting.

## SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 28 to the financial statements.

15

## DIRECTORS

The directors of the Company who were in office during the year and those at the date of this report are as follows:

Lam Kin Ngok, Peter (*Chairman*)

Lau Shu Yan, Julius (*Chief Executive Officer*)

Tam Kin Man, Kraven

Cheung Wing Sum, Ambrose

Cheung Sum, Sam

(appointed on 1 June 2007)

Leung Churk Yin, Jeanny

(appointed on 1 September 2007)

Lam Kin Ming

U Po Chu

David Tang\*

Lam Bing Kwan\*

Leung Shu Yin, William\*

\* *Independent non-executive directors*



# Report of the Directors

## **DIRECTORS (continued)**

Mr. Cheung Sum, Sam and Ms. Leung Churk Yin, Jeanny were appointed executive directors of the Company on 1 June 2007 and 1 September 2007 respectively. In accordance with Article 93 of the Company's Articles of Association, Mr. Cheung and Ms. Leung retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 102 of the Company's Articles of Association, Madam U Po Chu and Mr. Leung Shu Yin, William retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## **DIRECTORS' SERVICE CONTRACTS**

None of the directors had entered or proposed to enter, into a service contract with any member of the Group which is not determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 5 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Madam U Po Chu held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong.

Mr. Lam Kin Ming held interest and/or directorship in companies engaged in the production of pop concerts and management of artistes.

Mr. Lam Kin Ngok, Peter and Madam U Po Chu held interests and/or directorships in companies engaged in the business of investment in and operation of restaurants in Hong Kong.

In view of the different locations and target customers, and different uses of the properties owned by the above companies and those of the Group, the directors do not consider the personal interests held by the abovementioned directors to be competing in practice with the relevant businesses of the Group.

As the Board of the Company (the "Board") is independent from the boards of the aforesaid companies and none of the above directors of the Company can control the Board, the Group is capable of carrying on its businesses independent of, and at arm's length from, the businesses of such companies.

Save as disclosed above, none of the directors or their respective associates was interested in, apart from the Group's business, any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

#### *Executive Directors*

**Mr. Lam Kin Ngok, Peter**, Chairman, aged 50, has been an executive director of the Company since June 1977. He is also the deputy chairman of Lai Sun Garment (International) Limited (“LSG”), the chairman of Lai Fung Holdings Limited and an executive director of eSun Holdings Limited (“eSun”) and Crocodile Garments Limited. eSun and LSG are substantial shareholders of the Company. Mr. Lam has extensive experience in the property development and investment business, hospitality and media and entertainment business.

Mr. Lam is currently Chairman of the Hong Kong Chamber of Films, Honorary Chairman of the Hong Kong Kowloon & New Territories Motion Picture Industry Association, a member of the Hong Kong Film Development Council and a member of the Hong Kong Tourism Board. He is also a member of the Entertainment Industry Advisory Committee of the Hong Kong Trade Development Council and a Trustee of the Better Hong Kong Foundation. Mr. Lam is a director of the Real Estate Developers Association of Hong Kong, an ex-committee member of the Federation of Hong Kong Hotel Owners and a council member of the Anglo-Hong Kong Trust. Mr. Lam is the son of Madam U Po Chu and is the younger brother of Mr. Lam Kin Ming.

**Mr. Lau Shu Yan, Julius**, Chief Executive Officer, aged 51, joined the Company as an executive director in July 1991. He is also an executive director of Lai Fung Holdings Limited. Mr. Lau has over 20 years’ experience in the property and securities industries holding senior management positions. Prior to joining the Lai Sun Group, he was a director of Jones Lang Wootton Limited and subsequently Jardine Fleming Broking Limited. Mr. Lau is a director and a member of the Executive Committee of Real Estate Developers Association of Hong Kong.

**Mr. Tam Kin Man, Kraven**, aged 59, was appointed an executive director of the Company in November 2005. He is also an executive director of Lai Fung Holdings Limited and Lai Sun Garment (International) Limited (“LSG”). LSG is a substantial shareholder of the Company. He joined the Lai Sun Group in 1989 and is currently a director of Furama Hotel Enterprises Limited and a number of subsidiaries of the Company. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has 30 years’ experience in property development, investment and management. He also has over 16 years’ experience in the hospitality business including hotels, restaurants and clubs in Asia and North America.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(continued)

### Directors (continued)

*Executive Directors (continued)*

**Mr. Cheung Wing Sum, Ambrose**, aged 56, was appointed an executive director of the Company in November, 2005. He is a business executive with a legal and banking background. He has over 24 years experience in mergers and acquisitions, management and development of hotels, hospitality and property industries. He was previously a partner of Woo, Kwan, Lee & Lo and Philip K H Wong, Kennedy Y H Wong & Co, a director of the Company and executive director of Sino Land Company Limited. Mr Cheung is also an executive director of eSun Holdings Limited, a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited and a substantial shareholder of the Company. Mr. Cheung is a Justice of the Peace and over the last 24 years he served on a number of public bodies and committees, which included the Legislative Council, the Urban Council and the Hong Kong Stadium Board of Governors. He is currently an elected member of the Shamshuipo District Council; the Chairman of Insurance Agents Registration Board and a member of the Hong Kong Institute of Certified Public Accountants Council and of the Advisory Committee, School of Hotel and Tourism Management, The Chinese University of Hong Kong.

**Mr. Cheung Sum, Sam**, aged 43, joined the Company as senior vice president in November 2006 and was appointed an executive director of the Company in June 2007. He is also an executive director of Lai Fung Holdings Limited. From March 2002 to February 2006, he was an executive director and chief financial officer of a listed company in Hong Kong, which was later privatised in August 2007. Before that, Mr. Cheung worked for a number of international investment banks and listed companies in Hong Kong. Mr. Cheung has extensive experience in corporate finance, investment banking and financial management. He graduated from London School of Economics and Political Science, University of London, with a Bachelor of Science (Economics) degree in Accounting and Finance. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants.

Mr. Cheung has a service contract with the Company with no fixed term but such contract is determinable by the employing company within one year without payment of compensation, other than statutory compensation. He will receive a remuneration payable monthly in arrears and will be entitled to participate in the share option scheme of the Company. He will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Cheung does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. He does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, there are no other matters relating to Mr. Cheung that need to be brought to the attention of shareholders of the Company and there is no information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

#### *Executive Directors (continued)*

**Ms. Leung Churk Yin, Jeanny**, aged 42, was appointed an executive director of the Company in September 2007. She is also an executive director and the Chief Executive Officer of eSun Holdings Limited (“eSun”) and an executive director of both Lai Sun Garment (International) Limited (“LSG”) and Lai Fung Holdings Limited. eSun and LSG are substantial shareholders of the Company. She is also a non-executive director of Top Form International Limited. All of the aforesaid companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Ms. Leung has over 20 years of corporate finance experience in Hong Kong, the Mainland of China and Taiwan. Prior to joining the Group, she was one of the founders and the managing director of Access Capital Limited. Before joining Access Capital Limited, a licensed corporation to carry out certain regulated activities under the Securities and Futures Ordinance, she worked at Yuanta Securities (Hong Kong) Company Limited, JP Morgan Securities (Asia) Limited, Standard Chartered (Asia) Limited and the Stock Exchange.

Ms. Leung does not have a service contract with the Company but will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Ms. Leung is entitled to such emoluments and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions. Save as aforesaid, Ms. Leung does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. She does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, there are no other matters relating to the appointment of Ms. Leung that need to be brought to the attention of shareholders of the Company and there is no information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Rules Governing the Listing of Securities on the Stock Exchange.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

#### *Non-Executive Directors*

**Mr. Lam Kin Ming**, aged 70, has been a director of the Company since June 1959. He is also the chairman of Lai Sun Garment (International) Limited (“LSG”), the chairman and chief executive officer of Crocodile Garments Limited, the deputy chairman of Lai Fung Holdings Limited and a non-executive director of eSun Holdings Limited (“eSun”). eSun and LSG are substantial shareholders of the Company. All of the aforesaid companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam has been involved in the management of garment business since 1958. He is the elder brother of Mr. Lam Kin Ngok, Peter.

**Madam U Po Chu**, aged 82, has been a director of the Company since December 1993. She is also a non-executive director of Lai Sun Garment (International) Limited (“LSG”), eSun Holdings Limited (“eSun”) and an executive director of Lai Fung Holdings Limited. eSun and LSG are substantial shareholders of the Company. Madam U has over 55 years’ experience in the garment manufacturing business and had been involved in the printing business since the mid-1960’s. In the early 1970’s, she started to expand the business to fabric bleaching and dyeing and in the late 1980’s became involved in property development and investment. Since early 1980’s, Madam U began investing in the catering industry in Hong Kong.

Madam U does not have a service contract with the Company. She will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the articles of association of the Company. She is entitled to such emoluments and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions. Madam U is interested, or deemed to be interested, within the meaning of Part XV of the Securities and Futures Ordinance, in 633,400 shares in the Company, representing approximately 0.004% of the issued share capital of the Company. She is the mother of Mr. Lam Kin Ngok, Peter. Save as disclosed above, there are no other matters relating to Madam U that need to be brought to the attention of shareholders of the Company and there is no information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**Mr. David Tang**, aged 53, is an independent non-executive director of the Company. He is the founder of The China Clubs (in Hong Kong, Beijing and Singapore), Shanghai Tang Stores and The Pacific Cigar Company Ltd. He is also a director of First Pacific Company Limited in Hong Kong. In community service, he is the chairman of The Hong Kong Cancer Fund and president of the Hong Kong Down Syndrome Association. He holds an Honours Degree in Philosophy and Logic. In 1983/84, he taught at Peking University.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

#### *Non-Executive Directors (continued)*

**Mr. Lam Bing Kwan**, aged 58, was appointed an independent non-executive director of the Company in July 2002. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has substantial experience in the property development and investment in the Mainland of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently a non-executive director of Sino-i Technology Limited and Nan Hai Corporation Limited and an independent non-executive director of Lai Fung Holdings Limited and eForce Holdings Limited, all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

**Mr. Leung Shu Yin, William**, aged 58, was appointed an independent non-executive director of the Company in September 2004. Mr. Leung is a certified public accountant, a member of the Hong Kong Securities Institute and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is practising as a practising director of several Certified Public Accountants' firms in Hong Kong and is also an independent non-executive director of Lai Sun Garment (International) Limited, a substantial shareholder of the Company and several companies listed in Hong Kong. Mr. Leung is also an executive director of another company listed in Hong Kong.

Mr. Leung does not have a service contract with the Company. He will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the articles of association of the Company. The current emolument of Mr. Leung is HK\$60,000 per annum. He is entitled to such discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions. Save as disclosed above, Mr. Leung does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. He does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Save as disclosed above, there are no other matters relating to Mr. Leung that need to be brought to the attention of shareholders of the Company and there is no information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme disclosed below and in note 29 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Report of the Directors

## SHARE OPTIONS SCHEME

Details of the Company's share option scheme are included in note 29 to the financial statements.

## DIRECTORS' INTERESTS

As at 31 July 2007, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) entered into the register kept by the Company pursuant to Section 352 of the SFO (the "Register"); or (iii) notified to the Company and the Stock Exchange pursuant to the Code for Securities Transaction by Directors adopted by the Company:

### (1) The Company

| Name of Director    | Personal Interest | Family Interests | Long positions in the shares |                        | Capacity         | Total         | Percentage |
|---------------------|-------------------|------------------|------------------------------|------------------------|------------------|---------------|------------|
|                     |                   |                  | Corporate Interests          | Other Interest         |                  |               |            |
| Lam Kin Ngok, Peter | 10,099,585        | Nil              | 1,582,869,192<br>(Note 1)    | Nil                    | Beneficial owner | 1,592,968,777 | 11.25%     |
| Lau Shu Yan, Julius | 1,200,000         | Nil              | Nil                          | 60,000,000<br>(Note 3) | Beneficial owner | 61,200,000    | 0.43%      |
| U Po Chu (Note 2)   | 633,400           | Nil              | Nil                          | Nil                    | Beneficial owner | 633,400       | 0.004%     |

Notes:

- Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.
- Madam U Po Chu is the widow of the late Mr. Lim Por Yen, whose estate includes an interest of 197,859,550 shares in the Company.
- The share option scheme adopted by the Company on 22 December 2006, became effective on 29 December 2006 and will remain in force for a period of 10 years. Options granted to the above Director are set out below:

| Name         | Date of Grant | No. of Share Option | Option Period           | Subscription Price per share |
|--------------|---------------|---------------------|-------------------------|------------------------------|
| Lau Shu Yan, | 19/01/2007    | 15,000,000          | 19/01/2007 – 31/12/2010 | HK\$0.45                     |
| Julius       | 19/01/2007    | 15,000,000          | 19/01/2007 – 31/12/2010 | HK\$0.55                     |
|              | 19/01/2007    | 15,000,000          | 19/01/2007 – 31/12/2010 | HK\$0.65                     |
|              | 19/01/2007    | 15,000,000          | 19/01/2007 – 31/12/2010 | HK\$0.75                     |

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporation

eSun Holdings Limited ("eSun")

| Name of Director         | Personal Interest | Family Interests | Long positions in shares of eSun |                     |                  | Total     | Percentage |
|--------------------------|-------------------|------------------|----------------------------------|---------------------|------------------|-----------|------------|
|                          |                   |                  | Corporate Interests              | Other Interest      | Capacity         |           |            |
| Lam Kin Ngok, Peter      | Nil               | Nil              | Nil                              | 7,451,849<br>(Note) | Beneficial owner | 7,451,849 | 0.91%      |
| Cheung Wing Sum, Ambrose | Nil               | Nil              | Nil                              | 7,451,849<br>(Note) | Beneficial owner | 7,451,849 | 0.91%      |

Note:

An employee share option scheme was adopted by eSun on 23 December 2005 and will remain in force for a period of 10 years. Options granted to the above directors as at 31 July 2007 are set out below:

| Name                        | Date of Grant | Number of share Option | Option Period           | Subscription Price Per Share |
|-----------------------------|---------------|------------------------|-------------------------|------------------------------|
| Lam Kin Ngok, Peter         | 24/02/2006    | 1,862,962              | 01/01/2007 – 31/12/2007 | HK\$4.00                     |
|                             | 24/02/2006    | 1,862,962              | 01/01/2008 – 31/12/2008 | HK\$4.25                     |
|                             | 24/02/2006    | 1,862,962              | 01/01/2009 – 31/12/2009 | HK\$4.50                     |
|                             | 24/02/2006    | 1,862,963              | 01/01/2010 – 31/12/2010 | HK\$4.75                     |
| Cheung Wing Sum,<br>Ambrose | 24/02/2006    | 1,862,962              | 01/01/2007 – 31/12/2007 | HK\$4.00                     |
|                             | 24/02/2006    | 1,862,962              | 01/01/2008 – 31/12/2008 | HK\$4.25                     |
|                             | 24/02/2006    | 1,862,962              | 01/01/2009 – 31/12/2009 | HK\$4.50                     |
|                             | 24/02/2006    | 1,862,963              | 01/01/2010 – 31/12/2010 | HK\$4.75                     |

Save as disclosed above, as at 31 July 2007, none of the directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.



## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS

As at 31 July 2007, the following persons, one of whom is a director of the Company, had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name  | Capacity                        | Long positions in the shares |                  |                    |
|---|---------------------------------|------------------------------|------------------|--------------------|
|   |                                 | Nature                       | Number of Shares | Percentage         |
| eSun Holdings Limited ("eSun")                  | Owner of controlled corporation | Corporate                    | 5,200,000,000    | 36.72%             |
| Lai Sun Garment (International) Limited ("LSG") | Beneficial owner                | Corporate                    | 1,582,869,192    | 11.18%<br>(Note 1) |
| Lam Kin Ngok, Peter                             | Beneficial owner                | Personal and Corporate       | 1,592,968,777    | 11.25%<br>(Note 1) |
| Nice Cheer Investment Limited ("Nice Cheer")    | Beneficial owner                | Corporate                    | 781,346,935      | 5.52%              |
| Xing Feng Investments Limited ("Xing Feng")     | Owner of controlled corporation | Corporate                    | 781,346,935      | 5.52%<br>(Note 2)  |
| Chen Din Hwa                                    | Owner of controlled corporation | Corporate                    | 1,047,079,435    | 7.39%<br>(Note 3)  |
| Chen Yang Foo Oi                                | Interest of spouse              | Family                       | 1,047,079,435    | 7.39%<br>(Note 4)  |
| IGM Financial Inc. ("IGM")                      | Owner of controlled corporation | Corporate                    | 1,000,000,000    | 7.06%              |
| Power Financial Corporation ("Power F")         | Owner of controlled corporation | Corporate                    | 1,000,000,000    | 7.06%<br>(Note 5)  |
| Power Corporation of Canada ("Power C")         | Owner of controlled corporation | Corporate                    | 1,000,000,000    | 7.06%<br>(Note 5)  |
| Gelco Enterprises Limited ("Gelco")             | Owner of controlled corporation | Corporate                    | 1,000,000,000    | 7.06%<br>(Note 5)  |

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS (continued)

| Name  | Capacity                        | Long positions in the shares |                  |                   |
|---|---------------------------------|------------------------------|------------------|-------------------|
|   |                                 | Nature                       | Number of Shares | Percentage        |
| Nordex Inc ("Nordex")                           | Owner of controlled corporation | Corporate                    | 1,000,000,000    | 7.06%<br>(Note 5) |
| Paul G. Desmarais                               | Owner of controlled corporation | Corporate                    | 1,000,000,000    | 7.06%<br>(Note 5) |
| Peter Cundill & Associates<br>(Bermuda) Limited | Investment Manager              | Corporate                    | 903,108,000      | 6.38%             |

### Notes:

- Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.
- Xing Feng was taken to be interested in 781,346,935 shares beneficially owned by Nice Cheer due to its corporate interest therein.
- Mr. Chen Din Hwa was taken to be interested in 781,346,935 shares by virtue of his corporate interests in Nice Cheer. In addition, 265,732,500 shares were allotted by the Company to Absolute Gain Trading Limited on 7 December 2004 as part of Bonds Settlement (as defined in the Company's circular to its shareholders dated 15 September 2004). Mr. Chen was taken to be interested in the 265,732,500 shares owned by Absolute Gain Trading Limited by virtue of his controlling interest therein.
- Madam Chen Yang Foo Oi was deemed to be interested in 1,047,079,435 shares by virtue of the interest in such shares of her spouse, Mr. Chen Din Hwa.
- Power F was deemed to be interested in 1,000,000,000 shares by virtue of its corporate interest in IGM.  
Power C was deemed to be interested in 1,000,000,000 shares by virtue of its corporate interest in Power F.  
Gelco was deemed to be interested in 1,000,000,000 shares by virtue of its corporate interest in Power C.  
Nordex was deemed to be interested in 1,000,000,000 shares due to its corporate interest in Gelco.  
Mr. Paul G. Desmarais was taken to be interested in 1,000,000,000 shares by virtue of his corporate interest in Nordex.

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31 July 2007.

# Report of the Directors

## CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

At no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

## CONTINUING CONNECTED TRANSACTIONS

- (1) As reported in the annual report of the Company for the year ended 31 July 2006, on 24 September 2003, the Company entered into a tenancy agreement with Crocodile Garments Limited ("CGL") for Unit 1001, 10th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong (the "Premises") for a period of 3 years from 1 October 2003 to 30 September 2006 at a monthly rental of HK\$137,836 (exclusive of rates, government rent, air-conditioning and management charges and other outgoings).

On 9 January 2007, the Company announced that on 4 January 2007 the Company and CGL entered into the offer letter in respect of the Premises for a term of 36 months from 1 October 2006 to 30 September 2009 at a monthly rental of HK\$202,700 (exclusive of management fee, air-conditioning charges, rates and government rent).

Mr. Lam Kin Ming, a non-executive director of the Company, owns approximately 51.01% interests in CGL. CGL is an associate of Mr. Lam Kin Ming and therefore a connected person of the Company within the meaning of the Listing Rules. Mr. Lam Kin Ming is also a director, chairman and chief executive officer of CGL. Accordingly, the transaction contemplated under the above lease constitutes a continuing connected transaction for the Company.

26

- (2) As reported in the annual report of the Company for the year ended 31 July 2006, the Company announced on 17 July 2006 that on 14 July 2006 the Company entered into the offer letter with Big Honor Asia Limited ("Big Honor"), pursuant to which the Company agreed to lease to Big Honor the premises at Unit 1105, 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong for a term of two years commencing from 1 July 2006 to 30 June 2008 at a monthly rental of HK\$85,830 (exclusive of government rates, government rent, management fee and air-conditioning charges).

Big Honor is a company which is owned as to 50% by Mr. Lam Kin Ming, a non-executive director of the Company and as to the remaining 50% by his daughter. Big Honor is thus an associate of a connected person of the Company under the Listing Rules and the entering into of the offer letter between the Company and Big Honor constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

- (3) The Company announced on 9 October 2007 that on 5 October 2007, Gilroy Company Limited ("Gilroy"), a subsidiary of the Company, entered into the offer letter with Media Asia Group Limited ("Media Asia"), a subsidiary of eSun Holdings Limited ("eSun"), pursuant to which Gilroy agreed to lease to Media Asia the whole 24th Floor, Causeway Bay Plaza 2, 463-483 Lockhart Road, Hong Kong for a term of 3 years commencing from 1 October 2007 to 30 September 2010 at the monthly rental of HK\$165,000 (exclusive of rates, government rent, management fee, air-conditioning charges and other outgoings).

# Report of the Directors

## CONTINUING CONNECTED TRANSACTIONS (continued)

(3) (continued)

eSun holds a 36.72% interest in the Company. Media Asia is therefore an associate of a connected person of the Company under the Listing Rules. Accordingly, the entering into of the offer letter between Gilroy and Media Asia constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company who have confirmed that the transactions have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms; and
- (c) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have provided a confirmation in respect of the continuing connected transactions (1) and (2) above for the year ended 31 July 2007 in accordance with the Listing Rules.

## DETAILS OF PROPERTIES

The principal investment properties of the Group are as follows:

|    | Location  | Group interest | Tenure  | Use                               |
|----|---|----------------|---|-----------------------------------|
| 1. | Cheung Sha Wan Plaza<br>833 Cheung Sha Wan Road,<br>Cheung Sha Wan, Kowloon,<br>Hong Kong<br>(New Kowloon Inland Lot No. 5955)  | 100%           | The property is held for a term expiring on 30 June 2047  | Office/<br>commercial/<br>carpark |
| 2. | Causeway Bay Plaza 2<br>463-483 Lockhart Road,<br>Causeway Bay, Hong Kong<br>(Section J and the Remaining Portions of Sections D, E, G, H, K, L, M and O, Subsection 4 of Section H and the Remaining Portion of Inland Lot No. 2833) | 100%           | The property is held for a term of 99 years commencing on 15 April 1929 and renewable for a further term of 99 years  | Office/<br>commercial/<br>carpark |
| 3. | Lai Sun Commercial Centre<br>680 Cheung Sha Wan Road,<br>Cheung Sha Wan, Kowloon,<br>Hong Kong<br>(New Kowloon Inland Lot No. 5984)   | 100%           | The property is held for a term of which expired on 27 June 1997 and had been extended upon expiry until 30 June 2047   | Office/<br>commercial/<br>carpark |
| 4. | AIG Tower<br>1 Connaught Road,<br>Central,<br>Hong Kong<br>(Marine Lot No. 275, Section A and the Remaining Portion of Marine Lot No. 278)  | 10%            | The property is held for a term of 999 years commencing from 9 September 1895 (for Marine Lot No. 275) and 999 years commencing from 12 October 1896 (for Marine Lot No. 278) | Office/<br>carpark                |

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

The principal properties under development of the Group as at date of this report are as follows:

|    | Location  | Group interest | Stage of construction   | Expected completion date   | Expected use           | Gross floor area  |
|----|---|----------------|---|--|------------------------|---|
| 1. | 20-28 Tai Po Road, Kowloon, Hong Kong             | 100%           | Demolition work to commence in late November 2007   | 2010   | Residential/commercial | The total site area is approximately 7,150 sq.ft.<br>The total gross floor area will be approximately 60,300 sq.ft.   |
| 2. | 48-56 Ki Lung Street, Mongkok, Kowloon, Hong Kong | 100%           | Demolition work completed for Nos. 48-52 and demolition work for Nos. 54-56 not yet commenced | Not yet determined; pending for the completion of acquisition of the entire site | Residential/commercial | The total site area is approximately 5,000 sq.ft.<br>The total gross floor area will be approximately 42,000 sq.ft.   |
| 3. | 16-34 Wood Road, Wanchai, Hong Kong               | 50%            | Demolition work completed for Nos. 20-34 and demolition work for Nos. 16-18 not yet commenced | 2011   | Residential/commercial | The total site area is approximately 13,300 sq.ft.<br>The total gross floor area will be approximately 143,000 sq.ft. |

## PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT

Details of movements in the property, plant and equipment, investment properties and properties under development of the Company and the Group during the year are set out in notes 14, 16 and 17, respectively, to the financial statements. Further details of the Group's investment properties are set out above under the heading "Details of properties."

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated and reclassified as appropriate, is set out below.

## RESULTS

|                                  | Year ended 31 July |                  |                  |                  |                    |
|----------------------------------|--------------------|------------------|------------------|------------------|--------------------|
|                                  | 2007<br>HK\$'000   | 2006<br>HK\$'000 | 2005<br>HK\$'000 | 2004<br>HK\$'000 | 2003<br>HK\$'000   |
| TURNOVER                         | <u>908,906</u>     | <u>793,807</u>   | <u>788,799</u>   | <u>2,109,513</u> | <u>906,590</u>     |
| PROFIT/(LOSS) BEFORE TAX         | <u>1,665,250</u>   | <u>629,758</u>   | <u>(373,750)</u> | <u>229,363</u>   | <u>(1,096,461)</u> |
| Tax                              | <u>(118,410)</u>   | <u>(80,656)</u>  | <u>(197,446)</u> | <u>198,979</u>   | <u>38,577</u>      |
| PROFIT/(LOSS) FOR<br>THE YEAR    | <u>1,546,840</u>   | <u>549,102</u>   | <u>(571,196)</u> | <u>428,342</u>   | <u>(1,057,884)</u> |
| Attributable to:                 |                    |                  |                  |                  |                    |
| Equity holders of<br>the Company | <u>1,495,091</u>   | <u>512,922</u>   | <u>(705,962)</u> | <u>381,435</u>   | <u>(1,085,494)</u> |
| Minority interests               | <u>51,749</u>      | <u>36,180</u>    | <u>134,766</u>   | <u>46,907</u>    | <u>27,610</u>      |
|                                  | <u>1,546,840</u>   | <u>549,102</u>   | <u>(571,196)</u> | <u>428,342</u>   | <u>(1,057,884)</u> |

# Report of the Directors

## ASSETS AND LIABILITIES

|  | As at 31 July      |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | 2007<br>HK\$'000   | 2006<br>HK\$'000   | 2005<br>HK\$'000   | 2004<br>HK\$'000   | 2003<br>HK\$'000   |
| Property, plant and equipment  | 1,230,513          | 1,265,621          | 1,298,496          | 1,303,627          | 1,797,072          |
| Prepaid land lease payments  | 30,148             | 31,176             | 14,550             | 29,915             | 30,970             |
| Investment properties  | 4,614,600          | 4,124,700          | 3,808,700          | 3,207,980          | 4,503,410          |
| Properties under development   | 106,942            | 61,197             | 1,462              | 1,424              | 1,400              |
| Goodwill   | 152,700            | 4,005              | 6,294              | 8,583              | 92,980             |
| Interests in associates  | 1,734,563          | 1,115,830          | 1,020,080          | 1,142,822          | 966,080            |
| Available-for-sale financial assets  | 743,516            | 519,172            | 559,748            | 287,245            | 357,791            |
| Pledged bank balances<br>and time deposits   | 95,138             | 95,652             | 62,341             | —                  | —                  |
| Deposits   | 36,500             | —                  | —                  | —                  | —                  |
| Pension scheme assets  | —                  | —                  | —                  | —                  | 18,298             |
| Current assets   | <u>1,097,946</u>   | <u>518,160</u>     | <u>601,465</u>     | <u>760,469</u>     | <u>386,620</u>     |
| TOTAL ASSETS   | <u>9,842,566</u>   | <u>7,735,513</u>   | <u>7,373,136</u>   | <u>6,742,065</u>   | <u>8,154,621</u>   |
| Current liabilities  | (581,167)          | (522,252)          | (402,819)          | (6,430,397)        | (8,040,621)        |
| Interest-bearing bank<br>and other borrowings  | (1,933,139)        | (2,234,551)        | (2,583,509)        | —                  | —                  |
| Deferred tax   | (727,972)          | (625,100)          | (551,756)          | (361,262)          | (596,596)          |
| Long term rental<br>deposits received  | (47,155)           | (31,605)           | (36,891)           | (29,122)           | (40,294)           |
| TOTAL LIABILITIES  | <u>(3,289,433)</u> | <u>(3,413,508)</u> | <u>(3,574,975)</u> | <u>(6,820,781)</u> | <u>(8,677,511)</u> |
| MINORITY INTERESTS   | <u>(333,151)</u>   | <u>(384,881)</u>   | <u>(366,090)</u>   | <u>(389,722)</u>   | <u>(360,013)</u>   |
| NET ASSETS/(DEFICIENCY IN<br>ASSETS) ATTRIBUTABLE TO<br>EQUITY HOLDERS<br>OF COMPANY | <u>6,219,982</u>   | <u>3,937,124</u>   | <u>3,432,071</u>   | <u>(468,438)</u>   | <u>(882,903)</u>   |

30

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity respectively.

# Report of the Directors

## DISTRIBUTABLE RESERVES

As at 31 July 2007, the Company did not have any reserves for distribution, in accordance with the provisions of Section 79B of the Companies Ordinance.

## DONATIONS

During the year, the Group made charitable contributions totaling approximately HK\$1,657,000.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 July 2007, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 32 to 35 of the 2006-2007 Annual Report.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers all the independent non-executive directors to be independent.

## AUDITORS

Ernst & Young retire at the forthcoming Annual General Meeting and a resolution for their reappointment as auditors of the Company will be proposed at the said meeting.

On behalf of the Board

**Lam Kin Ngok, Peter**

*Chairman*

Hong Kong

9 November 2007



# Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## (1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the CG Code throughout the accounting period covered by this Annual Report save for the deviation from code provision A.4.1 and E.1.2.

### Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive Directors of the Company is appointed for a specific term. However, under the Articles of Association of the Company, all Directors of the Company are subject to retirement by rotation once every three years since their last election and a retiring Director shall be eligible for re-election.

### Code Provision E.1.2.

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the annual general meeting of the Company held on 22 December 2006.

## (2) DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a Code for Securities Transactions by Directors (the “Securities Code”) on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the year ended 31 July 2007.

# Corporate Governance Report

## (3) BOARD OF DIRECTORS

(3.1) The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

The Board has established specific committees with written terms of reference to assist it in the efficient implementation of its functions, namely, the Executive Committee, Audit Committee, and Remuneration Committee. Specific responsibilities have been delegated to the above committees.

(3.2) The Board comprises six executive Directors, namely, Mr. Lam Kin Ngok, Peter (Chairman), Mr. Lau Shu Yan, Julius (Chief Executive Officer), Mr. Tam Kin Man, Kraven, Mr. Cheung Wing Sum, Ambrose, Mr. Cheung Sum, Sam and Ms. Leung Churk Yin, Jeanny; two non-executive Directors, namely, Mr. Lam Kin Ming and Madam U Po Chu, and three independent non-executive Directors, namely, Mr. David Tang, Mr. Lam Bing Kwan and Mr. Leung Shu Yin, William.

(3.3) The Board met four times during the year ended 31 July 2007. The attendance record of individual directors at these board meetings is set out in the following table:

| Directors                                     | Board Meetings |          |
|---|----------------|----------|
|   | Held           | Attended |
| <b>Executive Directors #</b>                  |                |          |
| Lam Kin Ngok, Peter (Chairman)                | 4              | 0        |
| Lau Shu Yan, Julius (Chief Executive Officer) | 4              | 4        |
| Tam Kin Man, Kraven                           | 4              | 4        |
| Cheung Wing Sum, Ambrose                      | 4              | 3        |
| Cheung Sum, Sam +                             | 1              | 1        |
| <b>Non-Executive Directors</b>                |                |          |
| Lam Kin Ming                                  | 4              | 2        |
| U Po Chu                                      | 4              | 0        |
| <b>Independent Non-Executive Directors</b>    |                |          |
| David Tang                                    | 4              | 3        |
| Lam Bing Kwan                                 | 4              | 4        |
| Leung Shu Yin, William                        | 4              | 4        |

+ appointed during the year

# Ms. Leung Churk Yin, Jeanny was appointed a director with effect from 1 September 2007

# Corporate Governance Report

## (3) BOARD OF DIRECTORS (continued)

(3.4) The Company has complied with the requirements under Rule 3.10(1) and (2) of the Listing Rules. All independent non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules

(3.5) Mr. Lam Kin Ngok, Peter, an executive director, is the son of Madam U Po Chu and the younger brother of Mr. Lam Kin Ming, the latter two being non-executive Directors.

Save as disclosed above and in the “Biographical Details of Directors and Senior Management” section of this Annual Report, none of the directors of the Company has any financial, business, family or other material/relevant relationships with one another.

## (4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of chairman and chief executive officer be separated and not performed by the same individual.

During the year under review, Mr. Lam Kin Ngok, Peter was the Chairman of the Company while Mr. Lau Shu Yan, Julius was the Chief Executive Officer of the Company.

## (5) NON-EXECUTIVE DIRECTORS

As explained in Paragraph (1) above, none of the existing non-executive Directors of the Company is appointed for a specific term.

## (6) REMUNERATION COMMITTEE

(6.1) The Board established a Remuneration Committee on 18 November 2005, which comprises three independent non-executive Directors, namely Messrs. Leung Shu Yin, William (Chairman), David Tang and Lam Bing Kwan, and an Executive Director, Ms. Leung Churk Yin, Jeanny.

(6.2) The Remuneration Committee has been charged with the responsibility to recommend to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all directors and senior management, including but not limited to directors' fee, salaries, allowances, bonuses, share options, benefits in kind and pension right, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.

(6.3) The Remuneration Committee held three meetings during the year ended 31 July 2007 to discuss remuneration-related matters. Messrs. Leung Shu Yin, William and Lam Bing Kwan attended all the meetings and Mr. David Tang attended two of the meetings. Ms. Leung Churk Yin, Jeanny was appointed a member of the Remuneration Committee on 1 September 2007.

# Corporate Governance Report

## (7) NOMINATION OF DIRECTORS

The Company has not established a nomination committee. Potential new directors will be recruited based on their skills, experience and expertise and the requirements of the Company at the relevant time. The process of identifying and selecting appropriate candidates for approval by the Board will be carried out by the executive directors of the Company.

## (8) AUDITORS' REMUNERATION

The auditors of the Company, Ernst & Young, received audit fees amounting to HK\$2,380,000 for the year under review. Ernst & Young also received fees amounting to HK\$555,000 for providing non-audit services (mainly taxation services) to the Company and its subsidiaries during the year.

## (9) AUDIT COMMITTEE

(9.1) the Board established an Audit committee on 31 March 2000, which currently comprises the three independent non-executive Directors, namely, Messrs. David Tang (Chairman), Lam Bing Kwan and Leung Shu Yin, William.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of the periodical financial statements of the Company and the review of significant financial reporting judgments contained in them before submission to the Board for approval.

The Company has complied with rule 3.21 of the Listing Rules in that one of the members of the Audit Committee possesses appropriate professional qualifications or accounting or related financial management experience.

(9.2) The Audit Committee held two meetings during the year under review. Messrs. Lam Bing Kwan and Leung Shu Yin, William attended all the meetings and Mr. David Tang attended one of the meetings.

(9.3) The Audit Committee reviewed the half-yearly and annual results of the Company, and other matters related to the financial and accounting policies and practices of the Company.

## (10) FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries, in accordance with accounting principles generally accepted in Hong Kong.

The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the report of the auditors contained in this annual report.

## (11) INTERNAL CONTROLS

During the year, Horwath Risk Advisory Services Limited has been engaged to perform audit functions and to assist the Board in reviewing the effectiveness of the internal control system of the Group. The periodic review will cover all material controls, including financial, operational and compliance controls and risk management functions of the Group.

# Independent Auditors' Report



## To the shareholders of Lai Sun Development Company Limited

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements of Lai Sun Development Company Limited set out on pages 38 to 111, which comprise the consolidated and company balance sheets as at 31 July 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITORS' RESPONSIBILITY**

36

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditors' Report

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

## **Ernst & Young**

*Certified Public Accountants*

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

9 November 2007

# Consolidated Income Statement

Year ended 31 July 2007

|  | Notes | 2007<br>HK\$'000     | 2006<br>HK\$'000    |
|--|-------|----------------------|---------------------|
| TURNOVER   | 6     | 908,906              | 793,807             |
| Cost of sales  |       | <u>(316,718)</u>     | <u>(270,574)</u>    |
| Gross profit   |       | 592,188              | 523,233             |
| Other revenue  | 6     | 63,930               | 36,656              |
| Administrative expenses  |       | (300,286)            | (268,980)           |
| Other operating expenses, net  |       | (49,842)             | (64,044)            |
| Fair value gain on investment properties                                     | 16    | <u>468,758</u>       | <u>315,091</u>      |
| PROFIT FROM OPERATING ACTIVITIES   | 7     | 774,748              | 541,956             |
| Finance costs  | 8     | (150,125)            | (156,943)           |
| Reversal of provision for  |       |                      |                     |
| contingent liabilities to bondholders  |       | —                    | 4,848               |
| Gain on cancellation of bond payables  |       | —                    | 37,492              |
| Share of profits and losses of associates                                    |       | 1,041,340            | 107,752             |
| Gain/(loss) on deemed disposal of interest in an associate                   |       | <u>(713)</u>         | <u>94,653</u>       |
| PROFIT BEFORE TAX  |       | 1,665,250            | 629,758             |
| Tax  | 11    | <u>(118,410)</u>     | <u>(80,656)</u>     |
| PROFIT FOR THE YEAR  |       | <u>1,546,840</u>     | <u>549,102</u>      |
| Attributable to:   |       |                      |                     |
| Equity holders of the Company  | 12    | 1,495,091            | 512,922             |
| Minority interests   |       | <u>51,749</u>        | <u>36,180</u>       |
|  |       | <u>1,546,840</u>     | <u>549,102</u>      |
| EARNINGS PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF THE COMPANY | 13    |                      |                     |
| Basic  |       | <u>HK10.91 cents</u> | <u>HK4.02 cents</u> |
| Diluted  |       | <u>HK10.85 cents</u> | <u>HK4.02 cents</u> |

# Consolidated Balance Sheet

31 July 2007

|  | Notes | 2007<br>HK\$'000   | 2006<br>HK\$'000   |
|--|-------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>                  |       |                    |                    |
| Property, plant and equipment              | 14    | 1,230,513          | 1,265,621          |
| Prepaid land lease payments                | 15    | 30,148             | 31,176             |
| Investment properties                      | 16    | 4,614,600          | 4,124,700          |
| Properties under development               | 17    | 106,942            | 61,197             |
| Goodwill                                   | 18    | 152,700            | 4,005              |
| Interests in associates                    | 20    | 1,734,563          | 1,115,830          |
| Available-for-sale financial assets        | 21    | 743,516            | 519,172            |
| Pledged bank balances and time deposits    | 22    | 95,138             | 95,652             |
| Deposits                                   | 24(a) | 36,500             | —                  |
| Total non-current assets                   |       | <u>8,744,620</u>   | <u>7,217,353</u>   |
| <b>CURRENT ASSETS</b>                      |       |                    |                    |
| Completed properties for sale              | 23    | 2,350              | 2,350              |
| Inventories                                |       | 5,798              | 5,323              |
| Debtors and deposits                       | 24(a) | 124,712            | 108,763            |
| Cash and cash equivalents                  | 22    | 965,086            | 401,724            |
| Total current assets                       |       | <u>1,097,946</u>   | <u>518,160</u>     |
| <b>CURRENT LIABILITIES</b>                 |       |                    |                    |
| Creditors, deposits received and accruals  | 24(b) | 156,334            | 200,437            |
| Tax payable                                |       | 12,663             | 9,314              |
| Interest-bearing bank and other borrowings | 25    | 412,170            | 309,841            |
| Bond payable                               | 26    | —                  | 2,660              |
| Total current liabilities                  |       | <u>581,167</u>     | <u>522,252</u>     |
| NET CURRENT ASSETS/(LIABILITIES)           |       | <u>516,779</u>     | <u>(4,092)</u>     |
| TOTAL ASSETS LESS CURRENT LIABILITIES      |       | <u>9,261,399</u>   | <u>7,213,261</u>   |
| <b>NON-CURRENT LIABILITIES</b>             |       |                    |                    |
| Interest-bearing bank and other borrowings | 25    | (1,933,139)        | (2,234,551)        |
| Deferred tax                               | 27    | (727,972)          | (625,100)          |
| Long term rental deposits received         |       | (47,155)           | (31,605)           |
| Total non-current liabilities              |       | <u>(2,708,266)</u> | <u>(2,891,256)</u> |
|  |       | <u>6,553,133</u>   | <u>4,322,005</u>   |



# Consolidated Balance Sheet

31 July 2007

|   | Notes | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>EQUITY</b>   |       |                  |                  |
| <b>Equity attributable to equity holders of the Company</b> |       |                  |                  |
| Issued capital  | 28    | 141,620          | 6,373,021        |
| Share premium account                                       | 28    | 6,974,701        | 5,858,164        |
| Investment revaluation reserve                              |       | 377,226          | 106,111          |
| Share option reserve  |       | 13,778           | 1,660            |
| Capital redemption reserve                                  |       | 1,200,000        | 1,200,000        |
| General reserve   | 28(a) | 479,201          | —                |
| Special capital reserve                                     | 28(a) | —                | —                |
| Exchange fluctuation reserve                                |       | 38,828           | 38,430           |
| Accumulated losses  |       | (3,005,372)      | (9,640,262)      |
|   |       | <u>6,219,982</u> | <u>3,937,124</u> |
| <b>Minority interests</b>                                   |       | <u>333,151</u>   | <u>384,881</u>   |
|   |       | <u>6,553,133</u> | <u>4,322,005</u> |

**Lam Kin Ngok, Peter**  
Director

**Lau Shu Yan, Julius**  
Director

# Consolidated Statement Of Changes In Equity

Year ended 31 July 2007

|  | Attributable to equity holders of the Company |           |             |          |            |          |          |             |              |             |           |           |
|--|---|-----------|-------------|----------|------------|----------|----------|-------------|--------------|-------------|-----------|-----------|
|  | Issued  | Share     | Investment  | Share    | Capital    | General  | Special  | Exchange    | Accumulated  |             | Minority  |           |
|  | capital                                       | premium   | revaluation | option   | redemption | reserve  | capital  | fluctuation | losses       | Sub - total | interests | Total     |
|  | HK\$'000                                      | HK\$'000  | HK\$'000    | HK\$'000 | HK\$'000   | HK\$'000 | HK\$'000 | HK\$'000    | HK\$'000     | HK\$'000    | HK\$'000  | HK\$'000  |
| At 1 August 2005   | 6,373,021                                     | 5,858,164 | 111,598     | —        | 1,200,000  | —        | —        | 42,472      | (10,153,184) | 3,432,071   | 366,090   | 3,798,161 |
| Exchange realignments:   |   |           |             |          |            |          |          |             |              |             |           |           |
| Subsidiaries   | —   | —         | —           | —        | —          | —        | —        | (72)        | —            | (72)        | —         | (72)      |
| Associates   | —   | —         | —           | —        | —          | —        | —        | 245         | —            | 245         | —         | 245       |
| Changes in fair values of<br>available-for-sale financial assets | —   | —         | (998)       | —        | —          | —        | —        | —           | —            | (998)       | —         | (998)     |
| Share of reserve movements<br>of associates                      | —   | —         | (2,543)     | 1,660    | —          | —        | —        | —           | —            | (883)       | —         | (883)     |
| Total income and expense<br>recognised directly in equity        | —   | —         | (3,541)     | 1,660    | —          | —        | —        | 173         | —            | (1,708)     | —         | (1,708)   |
| Release upon deemed disposal of<br>interest in an associate      | —   | —         | (1,946)     | —        | —          | —        | —        | (4,215)     | —            | (6,161)     | —         | (6,161)   |
| Profit for the year  | —   | —         | —           | —        | —          | —        | —        | —           | 512,922      | 512,922     | 36,180    | 549,102   |
| Total recognised income<br>and expense for the year              | —   | —         | (5,487)     | 1,660    | —          | —        | —        | (4,042)     | 512,922      | 505,053     | 36,180    | 541,233   |
| Repayment to minority shareholders                               | —   | —         | —           | —        | —          | —        | —        | —           | —            | —           | (35,000)  | (35,000)  |
| Capital contribution by a<br>minority shareholder                | —   | —         | —           | —        | —          | —        | —        | —           | —            | —           | 17,611    | 17,611    |
| At 31 July 2006 and<br>1 August 2006 - page 42                   | 6,373,021                                     | 5,858,164 | 106,111     | 1,660    | 1,200,000  | —        | —        | 38,430      | (9,640,262)  | 3,937,124   | 384,881   | 4,322,005 |

# Consolidated Statement Of Changes In Equity

Year ended 31 July 2007

|  | Attributable to equity holders of the Company |           |             |          |            |          |           |             |             |           |           |           |
|--|---|-----------|-------------|----------|------------|----------|-----------|-------------|-------------|-----------|-----------|-----------|
|  | Issued  | Share     | Investment  | Share    | Capital    | General  | Special   | Exchange    | Accumulated | Sub-total | Minority  | Total     |
|  | capital                                       | premium   | revaluation | option   | redemption | reserve  | capital   | fluctuation | losses      |           | interests |           |
|  | HK\$'000                                      | HK\$'000  | HK\$'000    | HK\$'000 | HK\$'000   | HK\$'000 | HK\$'000  | HK\$'000    | HK\$'000    | HK\$'000  | HK\$'000  | HK\$'000  |
| At 31 July 2006 and                    |   |           |             |          |            |          |           |             |             |           |           |           |
| 1 August 2006 - page 41                | 6,373,021                                     | 5,858,164 | 106,111     | 1,660    | 1,200,000  | —        | —         | 38,430      | (9,640,262) | 3,937,124 | 384,881   | 4,322,005 |
| Exchange realignments:                 |   |           |             |          |            |          |           |             |             |           |           |           |
| Subsidiaries                           | —   | —         | —           | —        | —          | —        | —         | 98          | —           | 98        | —         | 98        |
| Associates                             | —   | —         | —           | —        | —          | —        | —         | 398         | —           | 398       | —         | 398       |
| Changes in fair values of              |   |           |             |          |            |          |           |             |             |           |           |           |
| available-for-sale financial assets    | —   | —         | 236,786     | —        | —          | —        | —         | —           | —           | 236,786   | —         | 236,786   |
| Share of reserve movements             |   |           |             |          |            |          |           |             |             |           |           |           |
| of associates                          | —   | —         | 34,430      | 5,546    | —          | —        | —         | —           | —           | 39,976    | —         | 39,976    |
| Total income recognised                |   |           |             |          |            |          |           |             |             |           |           |           |
| directly in equity                     | —   | —         | 271,216     | 5,546    | —          | —        | —         | 496         | —           | 277,258   | —         | 277,258   |
| Release upon deemed disposal of        |   |           |             |          |            |          |           |             |             |           |           |           |
| interest in an associate               | —   | —         | (101)       | —        | —          | —        | —         | (98)        | —           | (199)     | —         | (199)     |
| Profit for the year                    | —   | —         | —           | —        | —          | —        | —         | —           | 1,495,091   | 1,495,091 | 51,749    | 1,546,840 |
| Total recognised income                |   |           |             |          |            |          |           |             |             |           |           |           |
| and expense for the year               | —   | —         | 271,115     | 5,546    | —          | —        | —         | 398         | 1,495,091   | 1,772,150 | 51,749    | 1,823,899 |
| Capital reduction (Note 28(a))         | (6,245,561)                                   | 626,561   | —           | —        | —          | —        | —         | —           | 5,619,000   | —         | —         | —         |
| Issue of shares (Note 28 (b))          | 14,160  | 495,600   | —           | —        | —          | —        | —         | —           | —           | 509,760   | —         | 509,760   |
| Share issue expenses                   | —   | (5,624)   | —           | —        | —          | —        | —         | —           | —           | (5,624)   | —         | (5,624)   |
| Equity-settled share option            |   |           |             |          |            |          |           |             |             |           |           |           |
| arrangements (Note 29)                 | —   | —         | —           | 6,572    | —          | —        | —         | —           | —           | 6,572     | —         | 6,572     |
| Transfer of reserves (Note 28(a)):     |   |           |             |          |            |          |           |             |             |           |           |           |
| — From accumulated losses              |   |           |             |          |            |          |           |             |             |           |           |           |
| to special capital reserve             | —   | —         | —           | —        | —          | —        | 479,201   | —           | (479,201)   | —         | —         | —         |
| — From special capital reserve         |   |           |             |          |            |          |           |             |             |           |           |           |
| to general reserve                     | —   | —         | —           | —        | —          | 479,201  | (479,201) | —           | —           | —         | —         | —         |
| Advance from a minority shareholder    | —   | —         | —           | —        | —          | —        | —         | —           | —           | —         | 450       | 450       |
| Repayment to minority shareholders     | —   | —         | —           | —        | —          | —        | —         | —           | —           | —         | (35,000)  | (35,000)  |
| Acquisition of additional interests of |   |           |             |          |            |          |           |             |             |           |           |           |
| a subsidiary from minority             |   |           |             |          |            |          |           |             |             |           |           |           |
| shareholders                           | —   | —         | —           | —        | —          | —        | —         | —           | —           | —         | (68,479)  | (68,479)  |
| Disposal of a subsidiary               | —   | —         | —           | —        | —          | —        | —         | —           | —           | —         | (450)     | (450)     |
| At 31 July 2007                        | 141,620                                       | 6,974,701 | 377,226     | 13,778   | 1,200,000  | 479,201  | —         | 38,828      | (3,005,372) | 6,219,982 | 333,151   | 6,553,133 |

# Consolidated Cash Flow Statement

Year ended 31 July 2007

|  | Notes | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |       |                  |                  |
| Profit before tax  |       | 1,665,250        | 629,758          |
| Adjustments for:   |       |                  |                  |
| Finance costs  | 8     | 150,125          | 156,943          |
| Reversal of provision for contingent liabilities<br>to bondholders               |       | —                | (4,848)          |
| Gain on cancellation of bond payables  |       | —                | (37,492)         |
| Share of profits and losses of associates  |       | (1,041,340)      | (107,752)        |
| Loss/(gain) on deemed disposal of interest in an associate                       |       | 713              | (94,653)         |
| Fair value gain on investment properties   |       | (468,758)        | (315,091)        |
| Depreciation   | 7     | 60,195           | 63,894           |
| Amortisation of prepaid land lease payments                                      | 7     | 1,028            | 985              |
| Gain on disposal of items of<br>property, plant and equipment                    | 7     | (1,544)          | (567)            |
| Gain on disposal of subsidiaries   | 7     | (2,431)          | —                |
| Impairment of goodwill   | 7     | 2,289            | 2,289            |
| Impairment of/(reversal of impairment of)<br>available-for-sale debt investments | 7     | (2,969)          | 2,969            |
| Equity-settled share option expense  | 7     | 6,572            | —                |
| Interest income  | 6     | (40,550)         | (30,198)         |
| Return of capital from an unlisted available-for-sale<br>equity investment       | 6     | (1,914)          | —                |
| Dividend income from unlisted available-for-sale<br>equity investments           | 6     | (984)            | (711)            |
|  |       | <u>325,682</u>   | <u>265,526</u>   |
| Increase in completed properties for sale  |       | (1,500)          | —                |
| Increase in inventories  |       | (475)            | (259)            |
| Decrease/(increase) in debtors and deposits                                      |       | (24,801)         | 19,832           |
| Increase in creditors, deposits received and accruals                            |       | <u>6,646</u>     | <u>13,725</u>    |
| Cash generated from operations   |       | 305,552          | 298,824          |
| Interest received  |       | 40,550           | 30,198           |
| Interest paid on bank and other borrowings                                       |       | (142,660)        | (144,712)        |
| Hong Kong profits tax paid   |       | (8,252)          | (3,933)          |
| Overseas taxes paid  |       | <u>(3,937)</u>   | <u>(1,160)</u>   |
| Net cash inflow from operating activities  |       | <u>191,253</u>   | <u>179,217</u>   |

# Consolidated Cash Flow Statement

Year ended 31 July 2007

|   | Notes | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |       |                  |                  |
| Purchases of items of property, plant and equipment   |       | (26,752)         | (35,425)         |
| Additions to investment properties  |       | (21,142)         | (909)            |
| Additions to properties under development   |       | (45,745)         | (59,735)         |
| Deposits paid for acquisition of properties under development                               |       | (30,300)         | —                |
| Acquisition of available-for-sale financial asset   |       | (18,486)         | —                |
| Acquisition of associates   |       | (2,039)          | —                |
| Acquisition of further interests of a subsidiary from minority shareholders                 |       | (219,463)        | —                |
| Deposit paid for purchase of a further interest of a subsidiary from a minority shareholder |       | (6,200)          | —                |
| Proceeds from disposal of items of property, plant and equipment                            |       | 3,209            | 4,973            |
| Proceeds from disposal of financial assets at fair value through profit or loss             |       | —                | 17               |
| Disposal of subsidiaries  | 33(b) | 3,500            | —                |
| Repayment from/(advance to) associates  |       | (132,494)        | 324,583          |
| Repayment from investee companies   |       | 49,773           | 36,609           |
| Return of capital from unlisted available-for-sale equity investment                        |       | 1,914            | —                |
| Dividends received from unlisted available-for-sale equity investments                      |       | 984              | 711              |
| Dividends received from associates  |       | 600,083          | —                |
| Decrease/(increase) in pledged bank balances and time deposits                              |       | 514              | (25,291)         |
| <b>Net cash inflow from investing activities</b>  |       | <b>157,356</b>   | <b>245,533</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |       |                  |                  |
| Proceeds from issue of shares   | 28(b) | 509,760          | —                |
| Share issue expenses  | 28(b) | (5,624)          | —                |
| Repayment of bank and other borrowings  |       | (199,083)        | (144,352)        |
| Repayment to an associate   |       | —                | (225,000)        |
| Payment of contingent liabilities to bondholders  |       | (55,020)         | (64,592)         |
| Bank financing charges  |       | (828)            | (734)            |
| Advance from a minority shareholder   |       | 450              | —                |
| Repayment to minority shareholders  |       | (35,000)         | (35,000)         |
| <b>Net cash inflow/(outflow) from financing activities</b>                                  |       | <b>214,655</b>   | <b>(469,678)</b> |

# Consolidated Cash Flow Statement

Year ended 31 July 2007

|   | Notes | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|-------|------------------|------------------|
| <hr/>   |       |                  |                  |
| NET INCREASE/(DECREASE) IN CASH AND<br>CASH EQUIVALENTS                                     |       | 563,264          | (44,928)         |
| Cash and cash equivalents at beginning of year  |       | 401,724          | 446,451          |
| Effect of foreign exchange rate changes, net  |       | 98               | 201              |
|   |       | <hr/>            | <hr/>            |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  |       | <b>965,086</b>   | 401,724          |
| <hr/>   |       |                  |                  |
| ANALYSIS OF BALANCES OF CASH AND<br>CASH EQUIVALENTS  |       |                  |                  |
| Cash and bank balances  |       | 132,953          | 129,978          |
| Non-pledged time deposits with original maturity of less<br>than three months when acquired |       | 832,133          | 271,746          |
|   |       | <hr/>            | <hr/>            |
|   |       | <b>965,086</b>   | 401,724          |
|   |       | <hr/>            | <hr/>            |

# Balance Sheet

31 July 2007

|  | Notes | 2007<br>HK\$'000   | 2006<br>HK\$'000   |
|--|-------|--------------------|--------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                    |                    |
| Property, plant and equipment                | 14    | 21,838             | 20,927             |
| Investment properties                        | 16    | 3,118,200          | 2,797,500          |
| Interests in subsidiaries                    | 19    | 2,878,928          | 1,359,132          |
| Interests in associates                      | 20    | (1,622)            | 351,826            |
| Available-for-sale financial assets          | 21    | 14,996             | 60,055             |
| Pledged bank balances and time deposits      | 22    | 95,138             | 95,652             |
| Total non-current assets                     |       | <u>6,127,478</u>   | <u>4,685,092</u>   |
| <b>CURRENT ASSETS</b>                        |       |                    |                    |
| Debtors and deposits                         |       | 67,686             | 45,159             |
| Cash and cash equivalents                    | 22    | 750,104            | 220,530            |
| Total current assets                         |       | <u>817,790</u>     | <u>265,689</u>     |
| <b>CURRENT LIABILITIES</b>                   |       |                    |                    |
| Creditors, deposits received and accruals    |       | 68,120             | 112,776            |
| Interest-bearing bank and other borrowings   | 25    | 118,000            | 85,000             |
| Total current liabilities                    |       | <u>186,120</u>     | <u>197,776</u>     |
| <b>NET CURRENT ASSETS</b>                    |       | <u>631,670</u>     | <u>67,913</u>      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <u>6,759,148</u>   | <u>4,753,005</u>   |
| <b>NON-CURRENT LIABILITIES</b>               |       |                    |                    |
| Interest-bearing bank and other borrowings   | 25    | (1,660,600)        | (1,822,600)        |
| Deferred tax                                 | 27    | (500,819)          | (437,572)          |
| Long term rental deposits received           |       | (32,111)           | (22,332)           |
| Total non-current liabilities                |       | <u>(2,193,530)</u> | <u>(2,282,504)</u> |
|  |       | <u>4,565,618</u>   | <u>2,470,501</u>   |
| <b>EQUITY</b>                                |       |                    |                    |
| Issued capital                               | 28    | 141,620            | 6,373,021          |
| Reserves                                     | 30(b) | 4,423,998          | (3,902,520)        |
| Total equity                                 |       | <u>4,565,618</u>   | <u>2,470,501</u>   |

Lam Kin Ngok, Peter  
Director

Lau Shu Yan, Julius  
Director

# Notes to Financial Statements

31 July 2007

## 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, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain available-for-sale financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 31 July 2007. 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 not held by the Group in the results and net assets of the Company’s subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and book value of the share of the net assets acquired is recognised as goodwill.



# Notes to Financial Statements

31 July 2007

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

|                                   |   |
|-----------------------------------|---|
| HKAS 21 Amendment                 | Net Investment in a Foreign Operation               |
| HKAS 39 and HKFRS 4<br>Amendments | Financial Guarantee Contracts                       |
| HKAS 39 Amendment                 | The Fair Value Option                               |
| HK(IFRIC)-Int 4                   | Determining whether an Arrangement contains a Lease |
| HK(IFRIC)-Int 8                   | Scope of HKFRS 2                                    |

The principal changes in accounting policies are as follows:

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

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 July 2007 or 31 July 2006.

48

### (b) HKAS 39 Financial Instruments: Recognition and Measurement

#### (i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

#### (ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as at fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

### (c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 August 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

# Notes to Financial Statements

31 July 2007

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### (d) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 “Share-based” Payment to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the adoption of this interpretation has had no impact on the financial position of the Group.

## 2.3 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 these financial statements, that have been issued but are not yet effective, in these financial statements.

|                  |  |
|------------------|--|
| HKAS 1 Amendment | Capital Disclosures                        |
| HKFRS 7          | Financial Instruments: Disclosures         |
| HKFRS 8          | Operating Segments                         |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | Group and Treasury Share Transactions      |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 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.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32 “Financial Instruments: Disclosure and Presentation”.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group’s major customers. This standard will supersede HKAS 14 “Segment Reporting”.

HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group’s results of operations and financial position.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity 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; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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.

50

There is crossholding between the Group and eSun Holdings Limited ("eSun"), an associate of the Group. Therefore, the Group's share of results of eSun for the year 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

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 non-financial assets other than goodwill

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.

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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets other than goodwill (continued)

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

### 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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

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 (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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

31 July 2007

## 2.4 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.

54

### Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### *Loans and receivables*

Loans and receivables are non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets and advances to investees that are designated as available for sale or are not classified in any of the other category under the scope of HKAS 39 as stated above. After initial recognition, available-for-sale financial assets 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 financial assets 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.



# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

56

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.

In relation to debtors, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### *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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

#### *Available-for-sale financial assets*

If an available-for-sale financial asset 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 the income statement, 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 them 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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including creditors, amounts due to subsidiaries, amounts due to associates and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement 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.

58

### 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, which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, 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

31 July 2007

## 2.4 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 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 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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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.

### 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 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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the 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.

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.

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

#### *Share-based payment transactions*

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black-Scholes Model, further details of which are given in note 29 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

62

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

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

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

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

# Notes to Financial Statements

31 July 2007

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### *Retirement benefits*

The Group operates defined contribution Mandatory Provident Fund retirement benefit schemes (the “MPF Schemes”) under the Mandatory Provident Fund Schemes Ordinance and defined contribution retirement schemes (the “Contribution Schemes”) for those employees who are eligible to participate in the respective schemes during the year. The assets of the schemes are held separately from those of the Group in the respective independently administered funds. Contributions to the MPF Schemes 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 Schemes, while under the Contribution Schemes, when an employee leaves the scheme prior to his/her interest in the Group’s contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The employees of the Group’s subsidiary which operates in Vietnam is required to participate in a central pension scheme operated by the government in Vietnam. This subsidiary is 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 materially affect the net present value used in the impairment test.



# Notes to Financial Statements

31 July 2007

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(continued)

### Judgements (continued)

#### *Income tax*

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

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

#### **Estimation uncertainty**

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

#### *Estimation of fair value of investment properties and available-for-sale financial assets*

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 valuation; (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. The carrying amount, at fair value, of investment properties as at 31 July 2007 was HK\$4,614,600,000 (2006: HK\$4,124,700,000) and the available-for-sale financial assets as at 31 July 2007 was HK\$708,872,000 (2006: HK\$503,014,000).

#### *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. The carrying amount of goodwill at 31 July 2007 was HK\$152,700,000 (2006: HK\$4,005,000).

# Notes to Financial Statements

31 July 2007

## 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.

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.

# Notes to Financial Statements

31 July 2007

## 4. SEGMENT INFORMATION (continued)

### (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 31 July 2007 and 2006:

|   | Property<br>development and sales |          | Property<br>investment |          | Hotel and<br>restaurant operations |          | Others   |          | Eliminations |          | Consolidated |           |
|---|-----------------------------------|----------|------------------------|----------|------------------------------------|----------|----------|----------|--------------|----------|--------------|-----------|
|   | 2007                              | 2006     | 2007                   | 2006     | 2007                               | 2006     | 2007     | 2006     | 2007         | 2006     | 2007         | 2006      |
|   | 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                                     | —                                 | —        | 299,886                | 265,402  | 576,796                            | 497,202  | 32,224   | 31,203   | —            | —        | 908,906      | 793,807   |
| Intersegment sales  | —                                 | —        | 7,040                  | 6,740    | —                                  | —        | 28,861   | 21,851   | (35,901)     | (28,591) | —            | —         |
| Other revenue   | —                                 | —        | 1,939                  | 992      | 503                                | 421      | 116      | 134      | —            | —        | 2,558        | 1,547     |
| Total   | —                                 | —        | 308,865                | 273,134  | 577,299                            | 497,623  | 61,201   | 53,188   | (35,901)     | (28,591) | 911,464      | 795,354   |
| Segment results   | 2,336                             | (279)    | 697,285                | 516,425  | 147,731                            | 106,182  | 12,091   | 8,679    | —            | —        | 859,443      | 631,007   |
| Interest income and unallocated gains                           |                                   |          |                        |          |                                    |          |          |          |              |          | 61,372       | 35,109    |
| Unallocated expenses  |                                   |          |                        |          |                                    |          |          |          |              |          | (146,067)    | (124,160) |
| Profit from operating activities                                |                                   |          |                        |          |                                    |          |          |          |              |          | 774,748      | 541,956   |
| Finance costs   |                                   |          |                        |          |                                    |          |          |          |              |          | (150,125)    | (156,943) |
| Reversal of provision for contingent liabilities to bondholders |                                   |          |                        |          |                                    |          |          |          |              |          | —            | 4,848     |
| Gain on cancellation of bond payables                           |                                   |          |                        |          |                                    |          |          |          |              |          | —            | 37,492    |
| Share of profits and losses of associates                       | 3,866                             | 49,620   | 11,269                 | 30,948   | 3,648                              | (118)    | —        | —        | —            | —        | 18,783       | 80,450    |
| Share of profits and losses of associates - unallocated         |                                   |          |                        |          |                                    |          |          |          |              |          | 1,022,557    | 27,302    |
| Gain/(loss) on deemed disposal of interest in an associate      |                                   |          |                        |          |                                    |          |          |          |              |          | (713)        | 94,653    |
| Profit before tax   |                                   |          |                        |          |                                    |          |          |          |              |          | 1,665,250    | 629,758   |
| Tax   |                                   |          |                        |          |                                    |          |          |          |              |          | (118,410)    | (80,656)  |
| Profit for the year   |                                   |          |                        |          |                                    |          |          |          |              |          | 1,546,840    | 549,102   |

## Notes to Financial Statements

31 July 2007

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

|  | Property<br>development and sales |          | Property<br>investment |           | Hotel and<br>restaurant operations |           | Others   |          | Eliminations |          | Consolidated |           |
|--|-----------------------------------|----------|------------------------|-----------|------------------------------------|-----------|----------|----------|--------------|----------|--------------|-----------|
|  | 2007                              | 2006     | 2007                   | 2006      | 2007                               | 2006      | 2007     | 2006     | 2007         | 2006     | 2007         | 2006      |
|  | 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                                 | 112,463                           | 67,793   | 4,661,643              | 4,146,746 | 1,592,156                          | 1,453,840 | 32,964   | 21,145   | —            | —        | 6,399,226    | 5,689,524 |
| Interests in associates                        | 178,176                           | 30,835   | —                      | 109,362   | —                                  | 90,858    | —        | —        | —            | —        | 178,176      | 231,055   |
| Interests in associates<br>– unallocated       |                                   |          |                        |           |                                    |           |          |          |              |          | 1,556,387    | 884,775   |
| Unallocated assets                             |                                   |          |                        |           |                                    |           |          |          |              |          | 1,708,777    | 930,159   |
| Total assets                                   |                                   |          |                        |           |                                    |           |          |          |              |          | 9,842,566    | 7,735,513 |
| Segment liabilities                            | 103                               | 165      | 91,390                 | 80,186    | 56,033                             | 53,653    | 6,808    | 8,948    | —            | —        | 154,334      | 142,952   |
| Interest-bearing bank<br>and other borrowings  |                                   |          |                        |           |                                    |           |          |          |              |          | 2,345,309    | 2,544,392 |
| Bond payable                                   |                                   |          |                        |           |                                    |           |          |          |              |          | —            | 2,660     |
| Other unallocated liabilities                  |                                   |          |                        |           |                                    |           |          |          |              |          | 789,790      | 723,504   |
| Total liabilities                              |                                   |          |                        |           |                                    |           |          |          |              |          | 3,289,433    | 3,413,508 |
| Other segment information:                     |                                   |          |                        |           |                                    |           |          |          |              |          |              |           |
| Amortisation of prepaid<br>land lease payments | —                                 | —        | —                      | —         | 1,028                              | 985       | —        | —        | —            | —        | 1,028        | 985       |
| Depreciation                                   | —                                 | —        | 26                     | 38        | 49,791                             | 55,554    | 162      | 146      | —            | —        | 49,979       | 55,738    |
| Unallocated amounts                            |                                   |          |                        |           |                                    |           |          |          |              |          | 10,216       | 8,156     |
|  |                                   |          |                        |           |                                    |           |          |          |              |          | 60,195       | 63,894    |
| Capital expenditure                            | 76,045                            | 59,735   | 21,142                 | 915       | 12,328                             | 26,832    | 50       | 218      | —            | —        | 109,565      | 87,700    |
| Unallocated amounts                            |                                   |          |                        |           |                                    |           |          |          |              |          | 14,374       | 25,980    |
|  |                                   |          |                        |           |                                    |           |          |          |              |          | 123,939      | 113,680   |
| Impairment of goodwill                         | —                                 | —        | —                      | —         | 2,289                              | 2,289     | —        | —        | —            | —        | 2,289        | 2,289     |
| Loss/(gain) on<br>disposal of subsidiaries     | (2,450)                           | —        | —                      | —         | —                                  | —         | 19       | —        | —            | —        | (2,431)      | —         |
| Fair value gain on<br>investment properties    | —                                 | —        | (468,758)              | (315,091) | —                                  | —         | —        | —        | —            | —        | (468,758)    | (315,091) |

# Notes to Financial Statements

31 July 2007

## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 July 2007 and 2006:

|                             | Hong Kong      |                | Vietnam        |                | Other locations |          | Eliminations |          | Consolidated   |                |
|-----------------------------|----------------|----------------|----------------|----------------|-----------------|----------|--------------|----------|----------------|----------------|
|                             | 2007           | 2006           | 2007           | 2006           | 2007            | 2006     | 2007         | 2006     | 2007           | 2006           |
|                             | 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 | 698,067        | 625,229        | 210,839        | 168,578        | —               | —        | —            | —        | 908,906        | 793,807        |
| Other revenue               | 2,558          | 1,547          | —              | —              | —               | —        | —            | —        | 2,558          | 1,547          |
| Total                       | <u>700,625</u> | <u>626,776</u> | <u>210,839</u> | <u>168,578</u> | <u>—</u>        | <u>—</u> | <u>—</u>     | <u>—</u> | <u>911,464</u> | <u>795,354</u> |
| Other segment information:  |                |                |                |                |                 |          |              |          |                |                |
| Segment assets              | 6,009,581      | 5,307,363      | 389,645        | 382,040        | —               | 121      | —            | —        | 6,399,226      | 5,689,524      |
| Capital expenditure         | <u>118,945</u> | <u>93,970</u>  | <u>4,994</u>   | <u>19,710</u>  | <u>—</u>        | <u>—</u> | <u>—</u>     | <u>—</u> | <u>123,939</u> | <u>113,680</u> |

# Notes to Financial Statements

31 July 2007

## 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            |                  |
|--|-------|------------------|------------------|
|  |       | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Rental income and building management fee from related companies   | (i)   | 4,975            | 3,610            |
| Rental income and building management fee from eSun and its subsidiaries (collectively the "eSun Group") | (ii)  | 2,617            | 1,849            |
| Rental income and building management fee from an associate of eSun                                      | (ii)  | 1,523            | 1,776            |
| Interest expense to a subsidiary of eSun   | (iii) | —                | 1,886            |

#### 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 interest paid or payable was charged at a rate of 4.5% per annum on the outstanding loan principal which was fully repaid during the year ended 31 July 2006.

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

|   | Group            |                  |
|---|------------------|------------------|
|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Short term employee benefits                        | 16,910           | 14,001           |
| Employee share option benefits                      | 6,572            | —                |
| Post-employment benefits                            | 252              | 224              |
| Total compensation paid to key management personnel | 23,734           | 14,225           |

# Notes to Financial Statements

31 July 2007

## 6. TURNOVER AND OTHER REVENUE

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

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

|   | Group          |                |
|---|----------------|----------------|
|   | 2007           | 2006           |
|   | HK\$'000       | HK\$'000       |
| <b>Turnover</b>   |                |                |
| Property rentals  | 300,107        | 265,402        |
| Hotel, restaurant and other operations                                  | 608,799        | 528,405        |
|   | <u>908,906</u> | <u>793,807</u> |
| <b>Other revenue</b>  |                |                |
| Interest income from bank deposits                                      | 19,720         | 12,226         |
| Other interest income   | 20,830         | 17,972         |
| Return of capital from an unlisted available-for-sale equity investment | 1,914          | —              |
| Dividend income from unlisted available-for-sale equity investments     | 984            | 711            |
| Others  | 20,482         | 5,747          |
|   | <u>63,930</u>  | <u>36,656</u>  |

# Notes to Financial Statements

31 July 2007

## 7. PROFIT FROM OPERATING ACTIVITIES

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

|  | Notes | Group            |                  |
|--|-------|------------------|------------------|
|  |       | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Depreciation <sup>#</sup>  | 14    | 60,195           | 63,894           |
| Amortisation of prepaid land lease payments*                                       | 15    | 1,028            | 985              |
| Staff costs (including directors' remuneration – note 9):                          |       |                  |                  |
| Wages and salaries   |       | 210,251          | 186,430          |
| Pension scheme contributions   |       | 7,222            | 7,292            |
|  |       | <u>217,473</u>   | <u>193,722</u>   |
| Auditors' remuneration   |       | 2,380            | 2,080            |
| Gain on disposal of items of property, plant and equipment*                        |       | (1,544)          | (567)            |
| Gain on disposal of subsidiaries*  |       | (2,431)          | —                |
| Impairment of goodwill*  | 18    | 2,289            | 2,289            |
| Impairment of/(reversal of impairment of)<br>available-for-sale debt investments*  |       | (2,969)          | 2,969            |
| Equity-settled share option expense  |       | 6,572            | —                |
| Minimum lease payments under operating leases<br>in respect of leasehold buildings |       | 5,230            | 5,528            |
| Rental income  |       | (300,107)        | (265,402)        |
| Less: Outgoings  |       | <u>50,473</u>    | <u>45,425</u>    |
| Net rental income  |       | <u>(249,634)</u> | <u>(219,977)</u> |
| Foreign exchange losses, net   |       | <u>499</u>       | <u>132</u>       |

<sup>#</sup> Depreciation charge of HK\$51,779,000 (2006: HK\$56,786,000) for property, plant and equipment is included in "other operating expenses, net" on the face of the consolidated income statement.

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



# Notes to Financial Statements

31 July 2007

## 8. FINANCE COSTS

|                                      | Group          |                |
|--------------------------------------|----------------|----------------|
|                                      | 2007           | 2006           |
|                                      | HK\$'000       | HK\$'000       |
| Interest on:                         |                |                |
| – bank and other borrowings          |                |                |
| wholly repayable within five years   | 140,445        | 129,036        |
| – bank borrowings not wholly         |                |                |
| repayable within five years          | —              | 14,319         |
| – amount due to a subsidiary of eSun | —              | 1,886          |
|                                      | <u>140,445</u> | <u>145,241</u> |
| Total interest expenses              | 140,445        | 145,241        |
| Other finance costs:                 |                |                |
| Bank financing charges               | 9,680          | 11,702         |
|                                      | <u>9,680</u>   | <u>11,702</u>  |
|                                      | <u>150,125</u> | <u>156,943</u> |

## 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 Hong Kong Companies Ordinance, is as follows:

|   | Group         |               |
|---|---------------|---------------|
|   | 2007          | 2006          |
|   | HK\$'000      | HK\$'000      |
| Fees                                      | 320           | 320           |
| Other emoluments:                         |               |               |
| Salaries, allowances and benefits in kind | 16,590        | 13,681        |
| Employee share option benefits            | 6,572         | —             |
| Pension scheme contributions              | 252           | 224           |
|   | <u>23,414</u> | <u>13,905</u> |
|   | <u>23,734</u> | <u>14,225</u> |

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options was determined as at the date of grant and the amount recognised to the income statement for the current year is included in the above directors' remuneration disclosures.

# Notes to Financial Statements

31 July 2007

## 9. DIRECTORS' REMUNERATION (continued)

### (a) Independent non-executive directors

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

|                        | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|------------------------|------------------|------------------|
| David Tang             | 200              | 200              |
| Lam Bing Kwan          | 60               | 60               |
| Leung Shu Yin, William | 60               | 60               |
|                        | <u>320</u>       | <u>320</u>       |

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

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

|                          | Salaries,<br>allowances<br>and benefits<br>in kind<br>HK\$'000 | Employee<br>share option<br>benefits<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>emoluments<br>HK\$'000 |
|--------------------------|--|--|--|---------------------------------|
| <b>2007</b>              |  |  |  |                                 |
| Executive directors:     |  |  |  |                                 |
| Lam Kin Ngok, Peter      | 10,625   | —  | 12   | 10,637                          |
| Lau Shu Yan, Julius      | 3,074  | 6,572  | 137  | 9,783                           |
| Tam Kin Man, Kraven      | 2,610  | —  | 102  | 2,712                           |
| Cheung Wing Sum, Ambrose | —  | —  | —  | —                               |
| Cheung Sum, Sam          | 281  | —  | 1  | 282                             |
|                          | <u>16,590</u>  | <u>6,572</u>                                     | <u>252</u>                                     | <u>23,414</u>                   |
| Non-executive directors: |  |  |  |                                 |
| Lam Kin Ming             | —  | —  | —  | —                               |
| U Po Chu                 | —  | —  | —  | —                               |
|                          | <u>—</u>   | <u>—</u>   | <u>—</u>                                       | <u>—</u>                        |
|                          | <u>16,590</u>  | <u>6,572</u>                                     | <u>252</u>                                     | <u>23,414</u>                   |

# Notes to Financial Statements

31 July 2007

## 9. DIRECTORS' REMUNERATION (continued)

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

|                          | Salaries,<br>allowances<br>and benefits<br>in kind<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>emoluments<br>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                           |
|                          | <u>13,681</u>  | <u>224</u>                                     | <u>13,905</u>                   |
| Non-executive directors: |  |  |                                 |
| Lam Kin Ming             | —  | —  | —                               |
| U Po Chu                 | —  | —  | —                               |
| Chiu Wai                 | —  | —  | —                               |
| Shiu Kai Wah             | —  | —  | —                               |
|                          | <u>—</u>   | <u>—</u>                                       | <u>—</u>                        |
|                          | <u>13,681</u>  | <u>224</u>                                     | <u>13,905</u>                   |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

# Notes to Financial Statements

31 July 2007

## 10. EMPLOYEES' REMUNERATION

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid employees for the year are as follows:

|   | Group        |              |
|---|--------------|--------------|
|   | 2007         | 2006         |
|   | HK\$'000     | HK\$'000     |
| Salaries, allowances and benefits in kind | 6,049        | 4,389        |
| Pension scheme contributions              | 144          | 211          |
|   | <u>6,193</u> | <u>4,600</u> |

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

|                                | Number of employees |          |
|--------------------------------|---------------------|----------|
|                                | 2007                | 2006     |
| HK\$1,500,001 to HK\$2,000,000 | 1                   | 1        |
| HK\$2,500,001 to HK\$3,000,000 | —                   | 1        |
| HK\$4,000,001 to HK\$4,500,000 | 1                   | —        |
|                                | <u>2</u>            | <u>2</u> |

# Notes to Financial Statements

31 July 2007

## 11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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                 |                      |
|--|-----------------------|----------------------|
|  | 2007<br>HK\$'000      | 2006<br>HK\$'000     |
| Provision for tax for the year:        |                       |                      |
| Current – Hong Kong                    | 8,888                 | 7,163                |
| Current – overseas                     | 7,214                 | 1,232                |
| Deferred tax – note 27                 | <u>102,872</u>        | <u>73,344</u>        |
|  | <b>118,974</b>        | <b>81,739</b>        |
| Prior years' overprovision - Hong Kong | <u>(564)</u>          | <u>(1,083)</u>       |
| Tax charge for the year                | <u><b>118,410</b></u> | <u><b>80,656</b></u> |

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

|   | Group                 |                       |
|---|-----------------------|-----------------------|
|   | 2007<br>HK\$'000      | 2006<br>HK\$'000      |
| Profit before tax   | 1,665,250             | 629,758               |
| Share of profits and losses of associates                             | <u>(1,041,340)</u>    | <u>(107,752)</u>      |
| Profit before tax attributable to<br>the Company and its subsidiaries | <u><b>623,910</b></u> | <u><b>522,006</b></u> |
| Tax at the statutory tax rate of 17.5% (2006: 17.5%)                  | 109,184               | 91,351                |
| Higher tax rate for other countries                                   | 879                   | 771                   |
| Adjustments in respect of current tax of previous periods             | (564)                 | (1,083)               |
| Income not subject to tax   | (7,454)               | (27,768)              |
| Expenses not deductible for tax purposes                              | 16,013                | 22,729                |
| Tax losses utilised from previous periods                             | (547)                 | (5,610)               |
| Tax losses not recognised   | <u>899</u>            | <u>266</u>            |
| Tax charge at the Group's effective rate                              | <u><b>118,410</b></u> | <u><b>80,656</b></u>  |

# Notes to Financial Statements

31 July 2007

## 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 July 2007 includes a profit of HK\$1,584,409,000 (2006: HK\$106,608,000) which has been dealt with in the financial statements of the Company (note 30(b)).

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$1,495,091,000 (2006: HK\$512,922,000) and the weighted average number of 13,700,388,000 (2006: 12,746,042,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 July 2007 is based on the adjusted profit attributable to equity holders of the Company for the year of HK\$1,487,136,000 (2006: HK\$512,797,000) and the weighted average number of 13,700,388,000 (2006: 12,746,042,000) ordinary shares in issue during the year.

The calculation of adjusted profit attributable to equity holders of the Company is based on the profit attributable to equity holders of the Company for the year of HK\$1,495,091,000 (2006: HK\$512,922,000) less the dilution in the results of an associate, eSun, attributable to the Group of HK\$7,955,000 (2006: HK\$125,000) arising from the deemed exercise of all eSun's share options being outstanding during the year.

All share options of the Company had an anti-dilutive effect on the basic earnings per share and have not been included in the diluted earnings per share calculation for the year ended 31 July 2007.

# Notes to Financial Statements

31 July 2007

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| Note  | Hotel<br>properties<br>HK\$'000 | Leasehold<br>buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Computers<br>HK\$'000 | Motor<br>vessels<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------|------------------------------------|---------------------------------------|---|-------------------------------|-----------------------|------------------------------|-------------------|
| Cost:                                       |                                 |                                    |                                       |   |                               |                       |                              |                   |
| At 1 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 31 July 2006 and<br>1 August 2006        | 1,546,274                       | 34,303                             | 69,646                                | 224,072   | 20,597                        | 12,629                | 33,005                       | 1,940,526         |
| Additions                                   | —                               | —                                  | 4,693                                 | 15,224  | 4,114                         | 1,940                 | 781                          | 26,752            |
| Disposals/write-off                         | —                               | —                                  | (107)                                 | (6,991)   | (2,248)                       | (289)                 | —                            | (9,635)           |
| At 31 July 2007                             | 1,546,274                       | 34,303                             | 74,232                                | 232,305   | 22,463                        | 14,280                | 33,786                       | 1,957,643         |
| Accumulated depreciation<br>and impairment: |                                 |                                    |                                       |   |                               |                       |                              |                   |
| At 1 August 2005                            | 329,411                         | 7,336                              | 37,803                                | 182,224   | 17,291                        | 9,009                 | 32,823                       | 615,897           |
| Depreciation provided<br>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 31 July 2006 and<br>1 August 2006        | 359,679                         | 8,019                              | 46,948                                | 200,397   | 16,497                        | 10,434                | 32,931                       | 674,905           |
| Depreciation provided<br>for the year       | 7 30,087                        | 683                                | 10,084                                | 15,024  | 2,599                         | 1,474                 | 244                          | 60,195            |
| Disposals/write-off                         | —                               | —                                  | (107)                                 | (5,333)   | (2,248)                       | (282)                 | —                            | (7,970)           |
| At 31 July 2007                             | 389,766                         | 8,702                              | 56,925                                | 210,088   | 16,848                        | 11,626                | 33,175                       | 727,130           |
| Net carrying amount:                        |                                 |                                    |                                       |   |                               |                       |                              |                   |
| At 31 July 2007                             | 1,156,508                       | 25,601                             | 17,307                                | 22,217  | 5,615                         | 2,654                 | 611                          | 1,230,513         |
| At 31 July 2006                             | 1,186,595                       | 26,284                             | 22,698                                | 23,675  | 4,100                         | 2,195                 | 74                           | 1,265,621         |

# Notes to Financial Statements

31 July 2007

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

At 31 July 2007, the Group's hotel properties with a total carrying amount of HK\$1,156,508,000 (2006: HK\$1,186,595,000) were pledged to banks to secure banking facilities granted to the Group (note 25).

At 31 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).

The Group's hotel properties and leasehold buildings as at 31 July 2007 included above are held under the following lease terms:

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



# Notes to Financial Statements

31 July 2007

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

### Company

|                                       | Leasehold<br>improvements<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Computers<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------------------|---------------------------------------|---|-------------------------------|-----------------------|-------------------|
| Cost:                                 |                                       |   |                               |                       |                   |
| At 1 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 31 July 2006 and<br>1 August 2006  | 23,799                                | 19,820  | 18,283                        | 1,054                 | 62,956            |
| Additions                             | 2,013                                 | 3,003   | 4,114                         | 197                   | 9,327             |
| Disposals/write-off                   | (107)                                 | (5,321)   | (2,248)                       | (274)                 | (7,950)           |
| <b>At 31 July 2007</b>                | <b>25,705</b>                         | <b>17,502</b>                                       | <b>20,149</b>                 | <b>977</b>            | <b>64,333</b>     |
| Accumulated depreciation:             |                                       |   |                               |                       |                   |
| At 1 August 2005                      | 6,908                                 | 15,265  | 14,965                        | 770                   | 37,908            |
| Depreciation provided<br>for the year | 3,405                                 | 1,827   | 1,785                         | 91                    | 7,108             |
| Disposals/write-off                   | —                                     | (887)   | (2,100)                       | —                     | (2,987)           |
| At 31 July 2006 and<br>1 August 2006  | 10,313                                | 16,205  | 14,650                        | 861                   | 42,029            |
| Depreciation provided<br>for the year | 4,400                                 | 1,619   | 2,251                         | 146                   | 8,416             |
| Disposals/write-off                   | (107)                                 | (5,321)   | (2,248)                       | (274)                 | (7,950)           |
| <b>At 31 July 2007</b>                | <b>14,606</b>                         | <b>12,503</b>                                       | <b>14,653</b>                 | <b>733</b>            | <b>42,495</b>     |
| Net carrying amount:                  |                                       |   |                               |                       |                   |
| <b>At 31 July 2007</b>                | <b>11,099</b>                         | <b>4,999</b>  | <b>5,496</b>                  | <b>244</b>            | <b>21,838</b>     |
| At 31 July 2006                       | 13,486                                | 3,615   | 3,633                         | 193                   | 20,927            |

# Notes to Financial Statements

31 July 2007

## 15. PREPAID LAND LEASE PAYMENTS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Cost:                                       |                  |                  |
| At beginning of year                        | 35,960           | 18,349           |
| Additions                                   | —                | 17,611           |
| At end of year                              | 35,960           | 35,960           |
| Accumulated amortisation:                   |                  |                  |
| At beginning of year                        | 4,784            | 3,799            |
| Amortisation provided for the year - note 7 | 1,028            | 985              |
| At end of year                              | 5,812            | 4,784            |
| Net carrying amount:                        |                  |                  |
| At end of year                              | 30,148           | 31,176           |

Leasehold land of the Group as at 31 July 2007 is held under medium-term lease and is situated outside Hong Kong.

At 31 July 2007, the Group's prepaid land lease payments with a carrying amount of HK\$30,148,000 (2006: HK\$31,176,000) were pledged to bank to secure banking facilities granted to the Group (note 25).

## 16. INVESTMENT PROPERTIES

|                                      | Group            |                  | Company          |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Carrying amount at beginning of year | 4,124,700        | 3,808,700        | 2,797,500        | 2,591,600        |
| Additions, at cost                   | 21,142           | 909              | 6,491            | 909              |
| Gain on revaluation                  | 468,758          | 315,091          | 314,209          | 204,991          |
| Carrying amount at end of year       | 4,614,600        | 4,124,700        | 3,118,200        | 2,797,500        |

## Notes to Financial Statements

31 July 2007

### 16. INVESTMENT PROPERTIES (continued)

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

|                    | Group            |                  | Company          |                  |
|--------------------|------------------|------------------|------------------|------------------|
|                    | 2007             | 2006             | 2007             | 2006             |
|                    | HK\$'000         | HK\$'000         | HK\$'000         | HK\$'000         |
| Long leases        | 1,490,000        | 1,320,000        | —                | —                |
| Medium-term leases | 3,124,600        | 2,804,700        | 3,118,200        | 2,797,500        |
|                    | <b>4,614,600</b> | <b>4,124,700</b> | <b>3,118,200</b> | <b>2,797,500</b> |

At 31 July 2007, the investment properties were stated at their aggregate open market value of HK\$4,614,600,000 (2006: 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 that date.

All investment properties of the Group and the Company were leased out under operating leases, further summary details of which are included in note 36(a) to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK\$4,603,000,000 (2006: HK\$4,113,000,000) and HK\$3,113,000,000 (2006: HK\$2,793,000,000), respectively, were pledged to banks to secure banking facilities granted to the Group (note 25).

82

At 31 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 (note 25).

# Notes to Financial Statements

31 July 2007

## 17. PROPERTIES UNDER DEVELOPMENT

|                      | Group            |                  |
|----------------------|------------------|------------------|
|                      | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| At beginning of year | 61,197           | 1,462            |
| Additions            | <u>45,745</u>    | <u>59,735</u>    |
| At end of year       | <u>106,942</u>   | <u>61,197</u>    |

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

|                    | Group            |                  |
|--------------------|------------------|------------------|
|                    | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Long leases        | 105,506          | 59,735           |
| Medium-term leases | <u>1,436</u>     | <u>1,462</u>     |
|                    | <u>106,942</u>   | <u>61,197</u>    |

# Notes to Financial Statements

31 July 2007

## 18. GOODWILL

|  | Group<br>HK\$'000 |
|--|-------------------|
| Cost:  |                   |
| At 1 August 2005, 31 July 2006 and 1 August 2006                 | 8,583             |
| Arising from acquisition of additional interests in a subsidiary | 150,984           |
| <b>At 31 July 2007</b>   | <b>159,567</b>    |
| Accumulated impairment:  |                   |
| At 1 August 2005   | 2,289             |
| Impairment provided for the year - note 7                        | 2,289             |
| At 31 July 2006 and 1 August 2006                                | 4,578             |
| Impairment provided for the year - note 7                        | 2,289             |
| <b>At 31 July 2007</b>   | <b>6,867</b>      |
| Net carrying amount:   |                   |
| <b>At 31 July 2007</b>   | <b>152,700</b>    |
| At 31 July 2006  | 4,005             |

Included in the carrying amount of goodwill as at 31 July 2007 is goodwill arising from acquisition of additional interests in a subsidiary from minority shareholders of the subsidiary during the year ended 31 July 2007 of HK\$150,984,000 (2006: Nil). The subsidiary currently holds The Ritz-Carlton Hong Kong. Having considered the estimated market value of the property and prevailing market conditions, the directors are of the opinion that there is no impairment of the goodwill as at 31 July 2007.

## 19. INTERESTS IN SUBSIDIARIES

|                               | Company                  |                          |
|-------------------------------|--------------------------|--------------------------|
|                               | 2007<br>HK\$'000         | 2006<br>HK\$'000         |
| Unlisted shares, at cost      | 1,167,416                | 1,167,416                |
| Amounts due from subsidiaries | 6,091,423                | 5,144,040                |
| Amounts due to subsidiaries   | (1,608,661)              | (1,588,105)              |
| Provision for impairment      | 4,482,762<br>(2,771,250) | 3,555,935<br>(3,364,219) |
|                               | <b>2,878,928</b>         | <b>1,359,132</b>         |

# Notes to Financial Statements

31 July 2007

## 19. INTERESTS IN SUBSIDIARIES (continued)

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for an amount due from a subsidiary of HK\$493,081,000 (2006: Nil) as at 31 July 2007 which bears interest at prevailing market lending rate.

Particulars of the principal subsidiaries as at 31 July 2007 are as follows:

| Name   | Place of incorporation/<br>registration<br>and operations | Nominal<br>value of<br>issued ordinary<br>share/registered<br>and paid-up<br>capital | Class of<br>shares<br>held | Percentage<br>of equity<br>attributable<br>to the Company |                 | Principal<br>activities   |
|--|---|--|----------------------------|---|-----------------|---|
|  |   |  |                            | Direct  | Indirect        |   |
| Chains Caravelle Hotel<br>Joint Venture Company<br>Limited ("CCHJV") | Vietnam   | US\$23,175,577   | *                          | —   | 26.01 **        | Hotel operations  |
| Diamond String Limited<br>("Diamond String")                         | Hong Kong   | HK\$10,000   | Ordinary                   | —   | 74.57<br>(note) | Hotel and restaurant<br>operations  |
| Furama Hotel Enterprises<br>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<br>(Vietnam) Pte. Ltd.                   | Singapore/<br>Vietnam                                     | S\$2   | Ordinary                   | —   | 100.00          | Provision of<br>management<br>and consultancy<br>service to<br>hotel owners |
| Goldmay Development<br>Limited ("Goldmay")                           | Hong Kong   | HK\$2  | Ordinary                   | 100.00  | —               | Property development  |
| Kolot Property<br>Services Limited                                   | Hong Kong   | HK\$2  | Ordinary                   | 100.00  | —               | Property management   |
| Lai Sun Real Estate<br>Agency Limited                                | Hong Kong   | HK\$2  | Ordinary                   | 100.00  | —               | Property management<br>and real estate agency                               |

# Notes to Financial Statements

31 July 2007

## 19. INTERESTS IN SUBSIDIARIES (continued)

| Name   | Place of incorporation/<br>registration<br>and operations | Nominal<br>value of<br>issued ordinary<br>share/registered<br>and paid-up<br>capital | Class of<br>shares<br>held | Percentage<br>of equity<br>attributable<br>to the Company |          | Principal<br>activities |
|--|---|--|----------------------------|---|----------|-------------------------|
|  |   |  |                            | Direct  | Indirect |                         |
| Milirich Investment Limited                  | Hong Kong   | HK\$2  | Ordinary                   | 100.00  | —        | Property development    |
| Peakflow Profits<br>Limited ("Peakflow")     | British Virgin Islands/<br>Hong Kong                      | US\$1  | Ordinary                   | 100.00  | —        | Investment holding      |
| Transformation<br>International Limited      | British Virgin Islands/<br>Hong Kong                      | US\$1  | Ordinary                   | 100.00  | —        | Investment holding      |
| Transtrend Holdings<br>Limited               | Hong Kong   | HK\$20   | Ordinary                   | —   | 100.00   | Investment holding      |
| Vutana Trading Investment<br>(No. 2) Limited | British Virgin Islands/<br>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 31 July 2007, the Group via Peakflow held a 10% equity interest in Bayshore Development Group 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).

Note: During the year ended 31 July 2007, a wholly-owned subsidiary of the Group (the "Subsidiary") acquired an aggregate of 9.57% equity interest in Diamond String together with the outstanding shareholders' loans owned by Diamond String to the respective minority shareholders from the minority shareholders of Diamond String. Accordingly, the Group's interests in Diamond String was increased from 65.00% as at 31 July 2006 to 74.57% as at 31 July 2007. Subsequent to the balance sheet date, the Subsidiary further acquired and disposed of certain interest in Diamond String, details of which are set out in notes 37(a) and (c), respectively.

# Notes to Financial Statements

31 July 2007

## 20. INTERESTS IN ASSOCIATES

|  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Unlisted shares, at cost                                   | —                | —                | 907              | 342,579          |
| Share of net assets  | 1,402,927        | 873,990          | —                | —                |
| Goodwill on acquisition                                    | 982              | 44,086           | —                | —                |
|  | <u>1,403,909</u> | <u>918,076</u>   | <u>907</u>       | <u>342,579</u>   |
| Amounts due from associates                                | 541,204          | 368,901          | 203,223          | 203,496          |
| Amounts due to associates                                  | (51,326)         | (15,132)         | (11,503)         | (3)              |
|  | <u>1,893,787</u> | <u>1,271,845</u> | <u>192,627</u>   | <u>546,072</u>   |
| Provision for impairment                                   | (159,224)        | (156,015)        | (194,249)        | (194,246)        |
|  | <u>1,734,563</u> | <u>1,115,830</u> | <u>(1,622)</u>   | <u>351,826</u>   |
| Market value of listed shares<br>at the balance sheet date | <u>1,613,147</u> | <u>1,841,558</u> | <u>—</u>         | <u>—</u>         |

At the balance sheet date, balances with associates are unsecured, interest-free and have no fixed terms of repayment.



# Notes to Financial Statements

31 July 2007

## 20. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates as at 31 July 2007 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  |
|--|--------------------|---|----------------------|--|---|
| Brilliant Pearl Limited<br>("Brilliant Pearl") # | Corporate          | Hong Kong   | Ordinary             | 50.00  | Property development  |
| East Asia Entertainment Limited                  | Corporate          | Hong Kong   | Ordinary             | 34.75  | Entertainment activity production   |
| East Asia Satellite Television Holdings Limited  | Corporate          | British Virgin Island/<br>Hong Kong                 | Ordinary             | 23.17  | Investment holding  |
| East Asia Satellite Television Limited           | Corporate          | Hong Kong   | Ordinary             | 34.75  | Programme production, distribution, broadcasting and other related services |
| East Asia – Televisão Por Satélite, Limitada #   | Corporate          | Macau   | Quota                | 34.75  | Investment holding  |
| eSun Holdings Limited                            | Corporate          | Bermuda/<br>Hong Kong                               | Ordinary             | 34.75  | Investment holding  |
| Fortune Sign Venture Inc.<br>("Fortune Sign")    | Corporate          | British Virgin Islands/<br>Hong Kong                | Ordinary             | 50.00  | Investment holding  |
| Kippford Enterprises Limited ("Kippford")        | Corporate          | Hong Kong   | Ordinary             | 50.00  | Property development  |
| Media Asia Entertainment Group Limited           | Corporate          | Bermuda/<br>Hong Kong                               | Ordinary             | 34.21  | Film production and distribution  |

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

# Notes to Financial Statements

31 July 2007

## 20. INTERESTS IN ASSOCIATES (continued)

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

The financial year end dates of the above associates are coterminous with that of the Group, except for Brilliant Pearl, the eSun Group and Kippford which have their financial year end date of 31 December, and Fortune Sign and its subsidiaries (collectively the "Fortune Sign Group") which have their financial year end date of 31 March. The consolidated financial statements of the Group are prepared with reference to the audited financial statements and unaudited management accounts of these associates for the period ended 31 July except for the eSun Group which is based on the unaudited management accounts for the period ended 30 June. The consolidated financial statements of the Group are adjusted for material transactions of the eSun Group between 30 June and 31 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:

|             | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------|------------------|------------------|
| Assets      | <u>6,332,726</u> | <u>3,833,997</u> |
| Liabilities | <u>2,375,279</u> | <u>1,838,842</u> |
| Turnover    | <u>378,634</u>   | <u>1,075,613</u> |
| Profit      | <u>2,850,330</u> | <u>252,907</u>   |

# Notes to Financial Statements

31 July 2007

## 20. INTERESTS IN ASSOCIATES (continued)

### The eSun Group

Included in the Group's interests in associates at 31 July 2007 is the Group's share of net assets of the eSun Group of HK\$1,541,681,000 (2006: HK\$875,991,000).

On 16 May 2007, share options granted under a share option scheme of eSun were exercised to subscribe for 1,862,962 ordinary shares of HK\$0.50 each of eSun at a subscription price of HK\$4.00 per share and accordingly the Group's interests in eSun was diluted from 34.83% to 34.75%.

A cross holding position has been existing between eSun and the Company. As at 31 July 2007, the Group's interest in eSun was 34.75% (2006: 34.83%) and the eSun Group held in aggregate 36.72% (2006: 40.80%) in the issued share capital of the Company.

### *eSun's audit qualification for its financial year ended 31 December 2006 – Prior year audit scope limitation affecting opening balances*

With respect to the financial statements of the eSun Group for the year ended 31 December 2006, the auditors of eSun stated in their report that they were unable to obtain sufficient reliable information to carry out the audit procedures to satisfy themselves as to (i) the competence and objectivity of an independent third party (the "Valuer") who performed a valuation of the rights, titles and interests to 127 films of the eSun Group (the "127 Film Rights") as at 31 December 2005 and (ii) the adequacy of the scope of the Valuer's work on the 127 Film Rights, which had an aggregate carrying value of HK\$187,073,000 and were included in the eSun Group's film rights of HK\$187,187,000 as at 31 December 2005. Accordingly, they stated that they were unable to carry out adequate audit procedures to assess the carrying amount of the film rights as at 31 December 2005 and the appropriateness of the basis of computation of the amortisation charge for the year ended 31 December 2005. They qualified their opinion on the financial statements of the eSun Group in respect of the year ended 31 December 2005 on account of this scope limitation. Any adjustments that might have been found necessary in respect of the above as at 31 December 2005 would have had a consequential impact on the opening balances of net assets of the eSun Group as at 1 January 2006, and of its profit for the year ended 31 December 2006, and the related disclosures in the financial statements.

Due to the scope limitation in the evidence available to the auditors of eSun, a qualified opinion on prior year audit scope limitation affecting opening balances was issued on the financial statements of the eSun Group for the year ended 31 December 2006.

### The Fortune Sign Group

During the year ended 31 July 2007, Taiwa Land Investment Company Limited ("Taiwa"), a wholly owned subsidiary of Fortune Sign, completed the disposal of its 100% interests in Majestic Hotel Enterprises Holding Limited and Majestic Centre Holding Limited which indirectly held Majestic Hotel and Majestic Centre, Kowloon, Hong Kong. The Group has received its share of the net sale proceeds of approximately HK\$600 million from the disposal, after repayment of the bank loan secured by the subject property and recognised a share of gain on such disposal of HK\$398,889,000 (included in share of profits and losses of associates) in the Group's consolidated income statement for the year ended 31 July 2007.

# Notes to Financial Statements

31 July 2007

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Available-for-sale investments,<br>at fair value: |                  |                  |                  |                  |
| Unlisted equity investments                       | 328,788          | 92,002           | —                | —                |
| Unlisted debt investments                         | 380,084          | 411,012          | 14,895           | 59,954           |
|   | <u>708,872</u>   | <u>503,014</u>   | <u>14,895</u>    | <u>59,954</u>    |
| Unlisted equity investments, at cost              | 196,732          | 196,732          | 3,101            | 3,101            |
| Unlisted investments, at cost                     | 18,486           | —                | —                | —                |
| Provision for impairment                          | (180,574)        | (180,574)        | (3,000)          | (3,000)          |
|   | <u>34,644</u>    | <u>16,158</u>    | <u>101</u>       | <u>101</u>       |
|   | <u>743,516</u>   | <u>519,172</u>   | <u>14,996</u>    | <u>60,055</u>    |

The fair value of the unlisted investments has 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 31 July 2007, or with reference to the market value of the underlying properties held by the investee companies.

As at 31 July 2007, unlisted investments of the Group with the carrying amount of HK\$34,644,000 (2006: HK\$16,158,000) were stated at cost less impairment because the variability in the range of reasonable fair value estimate is so significant that the directors are of the opinion that the probabilities of the various estimates required to arrive at the fair value cannot be measured reliably.

As at 31 July 2007, included in available-for-sale investments at fair value were the equity and debt interests in Bayshore with an aggregate amount of HK\$673,570,000 (2006: HK\$442,894,000), which had been pledged to Grand Design Development Limited, another shareholder of Bayshore, to secure a loan facility granted to the Group (note 25).

# Notes to Financial Statements

31 July 2007

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

|  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Cash and bank balances                                   | 135,585          | 135,620          | 15,254           | 48,950           |
| Time deposits  | 924,639          | 361,756          | 829,988          | 267,232          |
|  | <u>1,060,224</u> | <u>497,376</u>   | <u>845,242</u>   | <u>316,182</u>   |
| Less: Pledged balances for<br>long term bank borrowings: |                  |                  |                  |                  |
| Bank balances  | (2,632)          | (5,642)          | (2,632)          | (5,642)          |
| Time deposits  | <u>(92,506)</u>  | <u>(90,010)</u>  | <u>(92,506)</u>  | <u>(90,010)</u>  |
| Pledged bank balances and time deposits                  | <u>(95,138)</u>  | <u>(95,652)</u>  | <u>(95,138)</u>  | <u>(95,652)</u>  |
| Cash and cash equivalents                                | <u>965,086</u>   | <u>401,724</u>   | <u>750,104</u>   | <u>220,530</u>   |

At the balance sheet date, cash and bank balances of the Group denominated in Vietnamese Dong (“VND”) amounted to approximately HK\$5,847,000 (2006: HK\$5,218,000). 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.

## 23. 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.

# Notes to Financial Statements

31 July 2007

## 24. 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           |                |
|---|-----------------|----------------|
|   | 2007            | 2006           |
|   | HK\$'000        | HK\$'000       |
| Trade debtors:  |                 |                |
| Less than 30 days   | 22,318          | 20,494         |
| 31 - 60 days  | 2,176           | 2,730          |
| 61 - 90 days  | 841             | 614            |
| Over 90 days  | 4,644           | 5,692          |
|   | <u>29,979</u>   | <u>29,530</u>  |
| Other debtors and deposits  | <u>131,233</u>  | <u>79,233</u>  |
|   | 161,212         | 108,763        |
| Portion classified as non-current:  |                 |                |
| Deposit paid for acquisition of properties under development                                | (30,300)        | —              |
| Deposit paid for purchase of a further interest in a subsidiary from a minority shareholder | (6,200)         | —              |
|   | <u>(36,500)</u> | <u>—</u>       |
| Current portion   | <u>124,712</u>  | <u>108,763</u> |

## Notes to Financial Statements

31 July 2007

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

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

|   | Group          |                |
|---|----------------|----------------|
|   | 2007           | 2006           |
|   | HK\$'000       | HK\$'000       |
| Trade creditors:                                |                |                |
| Less than 30 days                               | 14,385         | 12,942         |
| 31 - 60 days                                    | 3,106          | 1,543          |
| 61 - 90 days                                    | 346            | 258            |
| Over 90 days                                    | 510            | 384            |
|   | <u>18,347</u>  | <u>15,127</u>  |
| Other creditors, deposits received and accruals | 137,987        | 185,310        |
|   | <u>156,334</u> | <u>200,437</u> |

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

# Notes to Financial Statements

31 July 2007

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

|  | Effective<br>annual interest<br>rate (%) | Group            |                  | Company          |                  |
|--|--|------------------|------------------|------------------|------------------|
|  |  | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| <b>Current</b>                         |  |                  |                  |                  |                  |
| Bank borrowings - secured              | 5.21 - 8.68                              | 386,314          | 109,453          | 118,000          | 85,000           |
| Other borrowings - secured             | 8.50                                     | 25,856           | 200,388          | —                | —                |
|  |  | <u>412,170</u>   | <u>309,841</u>   | <u>118,000</u>   | <u>85,000</u>    |
| <b>Non-current</b>                     |  |                  |                  |                  |                  |
| Bank borrowings - secured              | 5.21 - 8.68                              | 1,784,464        | 2,234,551        | 1,660,600        | 1,822,600        |
| Other borrowings - secured             | 8.50                                     | 148,675          | —                | —                | —                |
|  |  | <u>1,933,139</u> | <u>2,234,551</u> | <u>1,660,600</u> | <u>1,822,600</u> |
|  |  | <u>2,345,309</u> | <u>2,544,392</u> | <u>1,778,600</u> | <u>1,907,600</u> |
| Analysed into:                         |  |                  |                  |                  |                  |
| Bank borrowings repayable:             |  |                  |                  |                  |                  |
| Within one year                        |  | 386,314          | 109,453          | 118,000          | 85,000           |
| In the second year                     |  | 152,175          | 386,314          | 120,000          | 118,000          |
| In the third to fifth years, inclusive |  | 1,632,289        | 1,808,847        | 1,540,600        | 1,704,600        |
| Beyond five years                      |  | —                | 39,390           | —                | —                |
|  |  | <u>2,170,778</u> | <u>2,344,004</u> | <u>1,778,600</u> | <u>1,907,600</u> |
| Other borrowings repayable:            |  |                  |                  |                  |                  |
| Within one year                        |  | 25,856           | 200,388          | —                | —                |
| In the second year                     |  | 25,856           | —                | —                | —                |
| In the third to fifth years, inclusive |  | 122,819          | —                | —                | —                |
|  |  | <u>174,531</u>   | <u>200,388</u>   | <u>—</u>         | <u>—</u>         |
|  |  | <u>2,345,309</u> | <u>2,544,392</u> | <u>1,778,600</u> | <u>1,907,600</u> |



# Notes to Financial Statements

31 July 2007

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

The Group's bank and other borrowings as at 31 July 2007 are secured, inter alia, by:

- (i) fixed charges over the Group's hotel properties, certain investment properties, prepaid land lease payments and certain available-for-sale financial assets;
- (ii) floating charges over certain assets held by the Group;
- (iii) charges over certain bank balances and time deposits of the Group; 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. BOND PAYABLE

The bond payable as at 31 July 2006 represented the residual principal amount of the bond with original principal amount of approximately HK\$266 million (the "Bond") which was distributed to the holders of the Bond 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 (as defined below) in accordance with the terms and conditions of the Bond in October 2006.

The Bond was interest-free and repayable on or before 31 December 2005. The maturity date of the Bond was extended to 31 December 2006 upon fulfillment of certain conditions pursuant to the terms of the Bond. The Bond was 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 35(a)).

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

In prior years, the Furama Danang Interest was disposed of by the Group with certain surplus distributed to the holders of the Bond. During the year ended 31 July 2006, the Group elected to extinguish its obligations in respect of the Bond 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 the independent property appraiser in accordance with the terms of the Bond. 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 Bond. Consequently, the Group's contingent liabilities to the holders of the Bond was reduced by HK\$64,592,000 during the year ended 31 July 2006.

# Notes to Financial Statements

31 July 2007

## 26. BOND PAYABLE (continued)

As at 31 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 ended 31 July 2006.

During the year ended 31 July 2007, the Group elected to extinguish its remaining obligations in respect of the Bond 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 the independent property appraiser in accordance with the terms of the Bond. 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 the Bond. Taking into account the 10% residual principal of approximately HK\$2,660,000, a final distribution in the amount of approximately HK\$55,020,000 was made to the holders of the Bond. Following the aforesaid final distribution made in October 2006, all remaining obligations under the Bond was fully satisfied and the provision for contingent liabilities of the Bond of HK\$52,360,000 was fully settled.

## 27. DEFERRED TAX

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

| Group   | Revaluation<br>of investment<br>properties<br>HK\$'000 | Accelerated<br>capital<br>allowances<br>HK\$'000 | Tax<br>losses<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--|---------------------------|--------------------|-------------------|
| At 1 August 2005  | (500,790)  | (84,101)   | 33,135                    | —                  | (551,756)         |
| Deferred tax credited/(debited)<br>to the consolidated income<br>statement during the<br>year – note 11 | (55,282)   | (3,565)  | (16,083)                  | 1,586              | (73,344)          |
| At 31 July 2006 and<br>1 August 2006  | (556,072)  | (87,666)   | 17,052                    | 1,586              | (625,100)         |
| Deferred tax debited to the<br>consolidated income statement<br>during the year – note 11               | (68,307)   | (19,105)   | (12,718)                  | (2,742)            | (102,872)         |
| <b>At 31 July 2007</b>  | <b>(624,379)</b>                                       | <b>(106,771)</b>                                 | <b>4,334</b>              | <b>(1,156)</b>     | <b>(727,972)</b>  |

The Group has tax losses arising in Hong Kong of approximately HK\$967,627,000 (2006: HK\$909,159,000) 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.

## Notes to Financial Statements

31 July 2007

### 27. DEFERRED TAX (continued)

#### Company

|  | Revaluation<br>of investment<br>properties<br>HK\$'000 | Accelerated<br>capital<br>allowances<br>HK\$'000 | Tax<br>losses<br>HK\$'000 | Total<br>HK\$'000       |
|--|--|--|---------------------------|-------------------------|
| At 1 August 2005   | (371,082)  | (36,499)   | 13,725                    | (393,856)               |
| Deferred tax debited to the income statement during the year | <u>(36,033)</u>  | <u>(3,054)</u>                                   | <u>(4,629)</u>            | <u>(43,716)</u>         |
| At 31 July 2006 and 1 August 2006                            | (407,115)  | (39,553)   | 9,096                     | (437,572)               |
| Deferred tax debited to the income statement during the year | <u>(56,122)</u>  | <u>(1,090)</u>                                   | <u>(6,035)</u>            | <u>(63,247)</u>         |
| <b>At 31 July 2007</b>                                       | <b><u>(463,237)</u></b>                                | <b><u>(40,643)</u></b>                           | <b><u>3,061</u></b>       | <b><u>(500,819)</u></b> |

At 31 July 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

# Notes to Financial Statements

31 July 2007

## 28. SHARE CAPITAL

| Shares | Number<br>of shares<br>2007<br>'000 | Nominal<br>value<br>2007<br>HK\$'000 | Number<br>of shares<br>2006<br>'000 | Nominal<br>value<br>2006<br>HK\$'000 |
|--------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
|--------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|

Authorised:

Ordinary shares of HK\$0.01

(2006: HK\$0.50) each

16,000,000

160,000

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

1,360,000

9,200,000

Issued and fully paid:

Ordinary shares of HK\$0.01

(2006: HK\$0.50) each

14,162,042

141,620

12,746,042

6,373,021

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

|   | Number of<br>shares in issue<br>'000 | Issued<br>share capital<br>HK\$'000 | Share<br>premium<br>account<br>HK\$'000 | Total<br>HK\$'000  |
|---|--------------------------------------|-------------------------------------|---|--------------------|
| At 1 August 2005, 31 July 2006 and<br>1 August 2006 | 12,746,042                           | 6,373,021                           | 5,858,164                               | 12,231,185         |
| Capital reduction (note (a))                        | —                                    | (6,245,561)                         | 626,561                                 | (5,619,000)        |
| Issue of shares (note (b))                          | 1,416,000                            | 14,160                              | 495,600                                 | 509,760            |
| Share issue expenses (note (b))                     | —                                    | —                                   | (5,624)                                 | (5,624)            |
|   | <u>1,416,000</u>                     | <u>(6,231,401)</u>                  | <u>1,116,537</u>                        | <u>(5,114,864)</u> |
| At 31 July 2007                                     | <u>14,162,042</u>                    | <u>141,620</u>                      | <u>6,974,701</u>                        | <u>7,116,321</u>   |

# Notes to Financial Statements

31 July 2007

## 28. SHARE CAPITAL (continued)

- (a) Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 24 July 2006, and the subsequent Order of the High Court of Hong Kong granted on 17 October 2006, the Company effected a capital reduction (the "Capital Reduction") which took effect on 18 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 had 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 1 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 18 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.

# Notes to Financial Statements

31 July 2007

## 28. SHARE CAPITAL (continued)

The undertaking is subject to the following provisions:

- (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 18 October 2006 and the Company shall be at liberty to transfer the amount of any such reduction to the general reserves of the Company and the same shall become available for distribution;
- (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
- (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.

During the year ended 31 July 2007, an aggregate amount of HK\$479,201,000, which comprises (i) the reversal of provision for impairment of the Company's interest in Peakflow, a wholly owned subsidiary of the Company which holds a 10% equity interest in Bayshore, to the extent of HK\$220,873,000; and (ii) the recognition of dividend income from the Company's investment in Fortune Sign of HK\$258,328,000, was transferred from accumulated losses to the special capital reserve of the Company. After the effective date of the Capital Reduction, the Company entered into a placing agreement pursuant to which a total of 1,416,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company were allotted and issued for net cash proceeds of HK\$504,136,000. Details of the placement of new shares are set out in note (b) below. With such increase in the Company's issued share capital and share premium account resulting from the placing of new shares for cash, an amount of HK\$479,201,000 was then transferred from the special capital reserve to the general reserve (a distributable reserve) of the Company pursuant to the provisos of the undertaking given by the Company in connection with the Capital Reduction as stated above.

- (b) Pursuant to a placing agreement entered into between the Company and a placing agent dated 17 November 2006, a total of 1,416,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company were allotted and issued to not less than six institutional investors for cash at a subscription price of HK\$0.36 per share (the "Placement"). The Placement was completed on 28 November 2006. The net proceeds from the Placement amounted to HK\$504,136,000, after deduction of share issue expenses of HK\$5,624,000.

# Notes to Financial Statements

31 July 2007

## 29. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants for their contribution or would-be contribution to the Group, to enable the Group to recruit and retain high-calibre employees and to attract human resources that are valuable to the Group. Eligible participants of the Share Option Scheme include the directors (including executive and non-executive directors), employees of the Group, agents or consultants of the Group, and any employee of the shareholder or any member of the Group or any holder of any securities issued by any member of the Group. The Share Option Scheme was adopted on 22 December 2006 and became effective on 29 December 2006 and, unless otherwise terminated or amended, will remain in force for a period of 10 years from the latter date.

The maximum number of the Company’s shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the Company’s shares in issue at any time. The total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Share Option Scheme, but the Company may seek approval of its shareholders in a general meeting to refresh the 10% limit under the Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the Company’s shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company.

102

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

The offer of a grant of share options may be accepted within 28 days from the date of offer to be accompanied by payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the directors of the Company save that such period must not be more than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, but must not be less than the highest of (i) the closing price of the Company’s shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of the grant, which must be a trading day; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheets for the 5 trading days immediately preceding the date of the grant; and (iii) the nominal value of the Company’s shares.

Share options do not confer rights on the holders to dividends or to vote at general meetings of the Company.

# Notes to Financial Statements

31 July 2007

## 29. SHARE OPTION SCHEME (continued)

The following share options were granted and vested on the same day and were outstanding under the Scheme during the year ended 31 July 2007:

| Name or category of participant | Number of share options granted during the year and at 31 July 2007 | Date of grant of options | Exercise period of share options | Exercise price of share options* HK\$ per share |
|---------------------------------|---|--------------------------|----------------------------------|---|
| <b>Director</b>                 |   |                          |                                  |   |
| Lau Shu Yan, Julius             | 15,000,000  | 19/01/2007               | 19/01/2007 - 31/12/2010          | 0.45  |
|                                 | 15,000,000  | 19/01/2007               | 19/01/2007 - 31/12/2010          | 0.55  |
|                                 | 15,000,000  | 19/01/2007               | 19/01/2007 - 31/12/2010          | 0.65  |
|                                 | 15,000,000  | 19/01/2007               | 19/01/2007 - 31/12/2010          | 0.75  |
|                                 | 60,000,000  |                          |                                  |   |

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The closing price of the Company's share immediately before the date of grant was HK\$0.315. The fair value of the share options granted during the year was HK\$6,572,000 which was recognised as share option expense in the consolidated income statement for the year ended 31 July 2007 (2006: Nil).

The fair value of the equity-settled share options granted during the year was estimated as at the date of grant, using a Black-Scholes model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used for the year ended 31 July 2007:

|                                 |       |
|---------------------------------|-------|
| Dividend yield (%)              | —     |
| Expected volatility (%)         | 63.21 |
| Historical volatility (%)       | 63.21 |
| Risk-free interest rate (%)     | 3.91  |
| Expected life of options (year) | 3.95  |
| Closing share price (HK\$)      | 0.315 |



# Notes to Financial Statements

31 July 2007

## 29. SHARE OPTION SCHEME (continued)

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

During the year, no share option was exercised or cancelled or lapsed in accordance with the terms of the Scheme. As at 31 July 2007 and the date of approval of these financial statements, the total number of 60,000,000 share options outstanding under the Scheme represented approximately 0.42% of the Company's shares in issue at those dates.

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 41 to 42 of the financial statements.

### (b) Company

|   | Notes | Share<br>premium<br>account<br>HK\$'000 | Share<br>option<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | General<br>reserve<br>HK\$'000 | Special<br>capital<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|-------|---|--|--|--------------------------------|---|-----------------------------------|-------------------|
| At 1 August 2005  |       | 5,858,164                               | —                                      | 1,200,000                                    | —                              | —   | (11,067,292)                      | (4,009,128)       |
| Profit for the year                                     |       | —                                       | —                                      | —  | —                              | —   | 106,608                           | 106,608           |
| At 31 July 2006 and 1 August 2006                       |       | 5,858,164                               | —                                      | 1,200,000                                    | —                              | —   | (10,960,684)                      | (3,902,520)       |
| Capital reduction                                       | 28(a) | 626,561                                 | —                                      | —  | —                              | —   | 5,619,000                         | 6,245,561         |
| Issue of shares   | 28(b) | 495,600                                 | —                                      | —  | —                              | —   | —                                 | 495,600           |
| Share issue expenses                                    | 28(b) | (5,624)                                 | —                                      | —  | —                              | —   | —                                 | (5,624)           |
| Equity-settled share option<br>arrangements             | 29    | —                                       | 6,572                                  | —  | —                              | —   | —                                 | 6,572             |
| Profit for the year                                     |       | —                                       | —                                      | —  | —                              | —   | 1,584,409                         | 1,584,409         |
| Transfer of reserves:                                   |       |   |  |  |                                |   |                                   |                   |
| – From accumulated losses to<br>special capital reserve | 28(a) | —                                       | —                                      | —  | —                              | 479,201                                   | (479,201)                         | —                 |
| – From special capital reserve to<br>general reserve    | 28(a) | —                                       | —                                      | —  | 479,201                        | (479,201)                                 | —                                 | —                 |
| At 31 July 2007   |       | 6,974,701                               | 6,572                                  | 1,200,000                                    | 479,201                        | —   | (4,236,476)                       | 4,423,998         |

# Notes to Financial Statements

31 July 2007

## 31. 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 and credit risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group 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 Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

### (i) Fair value and cash flow interest rate risks

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

### (ii) Foreign currency risk

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

The Group's revenue is predominately in HK\$ or US\$ and certain portion of the bank borrowings are denominated in US\$. As US\$ and HK\$ are pegged, the Group does not expect any significant movements in 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 24. In addition, trade debtors 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 financial investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

# Notes to Financial Statements

31 July 2007

## 32. FINANCIAL INSTRUMENTS

### Fair values

The carrying amounts of all the financial assets and financial liabilities as at 31 July 2007 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 31 July 2007 and 2006 that are exposed to interest rate risk:

#### At 31 July 2007

|                           | Within<br>1 year<br>HK\$'000 | More than<br>1 year but<br>less than<br>2 years<br>HK\$'000 | More than<br>2 years but<br>less than<br>3 years<br>HK\$'000 | More than<br>3 years but<br>less than<br>4 years<br>HK\$'000 | More than<br>4 years but<br>less than<br>5 years<br>HK\$'000 | More than<br>5 years<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------|------------------------------|---|--|--|--|----------------------------------|-------------------|
| Floating rate:            |                              |   |  |  |  |                                  |                   |
| Pledged bank balances     | —                            | —   | 2,632  | —  | —  | —                                | 2,632             |
| Pledged time deposits     | —                            | —   | 92,506   | —  | —  | —                                | 92,506            |
| Cash and cash equivalents | 965,086                      | —   | —  | —  | —  | —                                | 965,086           |
| Bank borrowings           | 386,314                      | 152,175   | 1,575,349  | 37,323   | 19,617   | —                                | 2,170,778         |
| Fixed rate:               |                              |   |  |  |  |                                  |                   |
| Other borrowings          | 25,856                       | 25,856  | 122,819  | —  | —  | —                                | 174,531           |

#### At 31 July 2006

|                           | Within<br>1 year<br>HK\$'000 | More than<br>1 year but<br>less than<br>2 years<br>HK\$'000 | More than<br>2 years but<br>less than<br>3 years<br>HK\$'000 | More than<br>3 years but<br>less than<br>4 years<br>HK\$'000 | More than<br>4 years but<br>less than<br>5 years<br>HK\$'000 | More than<br>5 years<br>HK\$'000 | Total<br>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 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           |

# Notes to Financial Statements

31 July 2007

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transactions

The Group had the following major non-cash transactions in the prior year:

- (i) The outstanding amount of the bond with original principal amount of approximately HK\$70 million was cancelled by HK\$37,492,000.
- (ii) 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.

### (b) Disposal of subsidiaries

|                               | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Net assets disposed of:       |                  |                  |
| Interest in an associate      | 19               | —                |
| Completed properties for sale | 1,500            | —                |
| Minority interests            | (450)            | —                |
|                               | <u>1,069</u>     | <u>—</u>         |
| Gain on disposal              | 2,431            | —                |
|                               | <u>3,500</u>     | <u>—</u>         |
| Satisfied by:                 |                  |                  |
| Cash                          | 3,500            | —                |

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

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Cash consideration received   | 3,500            | —                |
| Cash and cash equivalents disposed of   | —                | —                |
| Net inflow of cash and cash equivalents<br>in respect of the disposal of subsidiaries | <u>3,500</u>     | <u>—</u>         |

The subsidiaries disposed of during the year did not contribute any significant turnover and profit for the year attributable to equity holders of the Company to the consolidated income statement for the year.

# Notes to Financial Statements

31 July 2007

## 34. COMMITMENTS

Save as disclosed elsewhere in the financial statements, the Group had the following commitments not provided for in the financial statements at the balance sheet date:

|   | Group        |              | Company      |              |
|---|--------------|--------------|--------------|--------------|
|   | 2007         | 2006         | 2007         | 2006         |
|   | HK\$'000     | HK\$'000     | HK\$'000     | HK\$'000     |
| Capital commitments – contracted,<br>but not provided for | <u>2,271</u> | <u>9,803</u> | <u>2,271</u> | <u>3,683</u> |

## 35. CONTINGENT LIABILITIES

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

|   | Group        |                | Company        |                |
|---|--------------|----------------|----------------|----------------|
|   | 2007         | 2006           | 2007           | 2006           |
|   | HK\$'000     | HK\$'000       | HK\$'000       | HK\$'000       |
| Guarantees given to banks in<br>connection with facilities<br>granted to: |              |                |                |                |
| Subsidiaries  | —            | —              | 353,499        | 356,388        |
| Associates  | <u>1,231</u> | <u>232,300</u> | <u>1,231</u>   | <u>232,300</u> |
|   | <u>1,231</u> | <u>232,300</u> | <u>354,730</u> | <u>588,688</u> |
| Guarantees given in connection<br>with the issue of the Bond              | <u>—</u>     | <u>—</u>       | <u>—</u>       | <u>2,660</u>   |
|   | <u>1,231</u> | <u>232,300</u> | <u>354,730</u> | <u>591,348</u> |

(b) In connection with the disposal of 100% interests in Majestic Hotel and Majestic Centre, Kowloon, Hong Kong by Taiwa (the “Transaction”), Taiwa, the Company, and the other 50% beneficial shareholder of Taiwa (collectively the “Covenantors”) entered into a tax deed (the “Tax Deed”) with the purchaser of the Transaction, and Majestic Hotel Enterprises Holding Limited and Majestic Centre Holding Limited and their subsidiaries (collectively the “Properties Holding Companies”) on 17 July 2007. Pursuant to the Tax Deed, the Covenantors severally agreed to indemnify the Properties Holding Companies against any taxation on profits levied by relevant tax authority in Hong Kong resulting from events happened prior to the completion of the Transaction for a maximum amount of HK\$30,000,000. As such, the maximum liability of the Company under the Tax Deed is HK\$15,000,000. The Tax Deed is valid for a period of 7 years from the date of its execution.

# Notes to Financial Statements

31 July 2007

## 35. CONTINGENT LIABILITIES (continued)

- (c) Pursuant to certain indemnity deeds dated 12 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 31 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 31 October 1997 (the “Valuation”); and (ii) the aggregate costs of such Property Interests incurred up to 31 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 18 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 indemnified by the Company during the year.

## 36. 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 and provide for periodic rental adjustments according to the then prevailing market conditions.

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

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007<br>HK\$’000 | 2006<br>HK\$’000 | 2007<br>HK\$’000 | 2006<br>HK\$’000 |
| Within one year                         | 201,884          | 165,011          | 151,453          | 124,062          |
| In the second to fifth years, inclusive | 143,436          | 106,214          | 94,958           | 67,599           |
|   | <u>345,320</u>   | <u>271,225</u>   | <u>246,411</u>   | <u>191,661</u>   |

# Notes to Financial Statements

31 July 2007

## 36. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group leases certain properties under operating lease arrangements with non-cancellable lease periods ranging from two to six 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          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Within one year                         | 7,220            | 913              | 5,936            | 913              |
| In the second to fifth years, inclusive | 15,111           | —                | 14,428           | —                |
|   | <u>22,331</u>    | <u>913</u>       | <u>20,364</u>    | <u>913</u>       |

## 37. POST BALANCE SHEET EVENTS

The Group had the following significant post balance sheet events:

### (a) Acquisition of an additional 2% interest in Diamond String

On 24 July 2007, the Subsidiary entered into a memorandum with a minority shareholder of Diamond String (the "Vendor") pursuant to which the Subsidiary conditionally agreed to purchase from the Vendor a 2% equity interest in Diamond String together with the outstanding shareholder loan owed by Diamond String to the Vendor at a consideration of HK\$62 million, subject to the pre-emption rights of the existing shareholders of Diamond String. At the close of the pre-emption period, no existing shareholders of Diamond String exercised their respective pre-emption rights. The transaction was completed on 21 September 2007. Upon completion of the transaction, the Group's interest in Diamond String was increased from 74.57% as at 31 July 2007 to 76.57%. As at 31 July 2007, deposit of HK\$6.2 million had been paid by the Group.

### (b) Purchase of property for development purpose

On 25 June 2007, Goldmay was advised that its offer to purchase in a public tender from an independent third party the property located at Nos. 20, 22, 24, 26 and 28 Tai Po Road, Kowloon, Hong Kong (the "Property") for a consideration of HK\$303 million had been accepted on 22 June 2007. It is the intention of the Group to develop the Property into a residential-cum-commercial property with a gross floor area of over 60,000 square feet. As at 31 July 2007, an aggregate deposit of HK\$30.3 million had been paid by the Group. The transaction was completed on 28 August 2007.

# Notes to Financial Statements

31 July 2007

## 37. POST BALANCE SHEET EVENTS (continued)

### (c) Disposal of a 16.57% interest in Diamond String

On 7 November 2007, the Company and the Subsidiary entered into an agreement (the “Agreement”) with, among others, CCB International Group Holdings Limited (“CCB International”), pursuant to which the Subsidiary agreed to sell a 16.57% interest in Diamond String and the Company agreed to assign to CCB International the related shareholder loan with interest accrued thereon owed by Diamond String to the Company for a total consideration of approximately HK\$567 million, subject to adjustment. In addition, the three minority shareholders of Diamond String who, collectively, held the remaining 23.43% interest in Diamond String agreed to sell their collective interest to CCB International. The transaction is scheduled to be completed in December 2007. Upon completion of the transaction, the Group and CCB International will hold 60% and 40% interest in Diamond String respectively. The gain before expenses arising from the disposal of the Group’s 16.57% interest in Diamond String, to be recognised by the Group in its consolidated income statement, is estimated at approximately HK\$402 million (before taking into account the cross-holding effect with eSun). After taking into account the cross-holding effect with eSun, the total estimated gain before expenses expected to accrue to the Group’s consolidated income statement upon completion of the transaction is approximately HK\$461 million. The actual financial impact to the Group arising from the disposal to be recorded in the Group’s consolidated accounts will be recalculated based on the net asset value of Diamond String as at the date to which completion accounts are drawn up. Further details of the transaction are set out in the Company’s announcement dated 8 November 2007.

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 9 November 2007.





## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 21 December 2007 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31 July 2007;
2. To re-elect retiring directors and to fix the directors' remuneration;
3. To appoint auditors and to authorise the directors to fix their remuneration; and
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

### Ordinary Resolution

“THAT:

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares in the Company, and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares in the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares in the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any of the securities which are convertible into shares of the Company; or (iii) an issue of shares in the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of shares in the Company under any option scheme or similar arrangement for the grant or issue to employees of the Company and/or any of its subsidiaries of shares in the Company or rights to acquire shares in the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

(d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; or
- (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; and

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors to the holders of shares, whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

By Order of the Board  
**Yeung Kam Hoi**  
*Company Secretary*

Hong Kong, 9 November 2007

**Notes:**

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Registrars, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Annual General Meeting or its adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Annual General Meeting or at any of its adjourned meeting should they so wish.

## Notice of Annual General Meeting

3. Concerning item 2 of this Notice, Mr. Cheung Sum, Sam and Ms. Leung Churk Yin, Jeanny were appointed executive Directors of the Company on 1 June 2007 and 1 September 2007 respectively. In accordance with Article 93 of the Company's Articles of Association, Mr. Cheung Sum, Sam and Ms. Leung Churk Yin, Jeanny retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 102 of the Company's Articles of Association, Madam U Po Chu and Mr. Leung Shu Yin, William retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Details of the above Directors are set out in the "Biographical Details of Directors and Senior Management", "Directors' Interests" and "Substantial Shareholders' and Other Persons' Interests" sections of the 2006-2007 Annual Report of the Company.

4. The Ordinary Resolution under item 4 relates to the granting of a general mandate to the directors of the Company to issue new shares of up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the said resolution. The Company has no immediate plan to issue any new shares under the general mandate.
5. In accordance with the Company's Articles of Association, at any general meeting of members of the Company, a resolution shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:
- (i) the Chairman of the Meeting; or
  - (ii) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
  - (iii) any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
  - (iv) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.