LAI SUN DEVELOPMENT

LAI SUN DEVELOPMENT COMPANY LIMITED

(Stock code: 488)

# Annual Report 2007-2008

**Contents**





**Lai Sun Development Company Limited**
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Kowloon, Hong Kong
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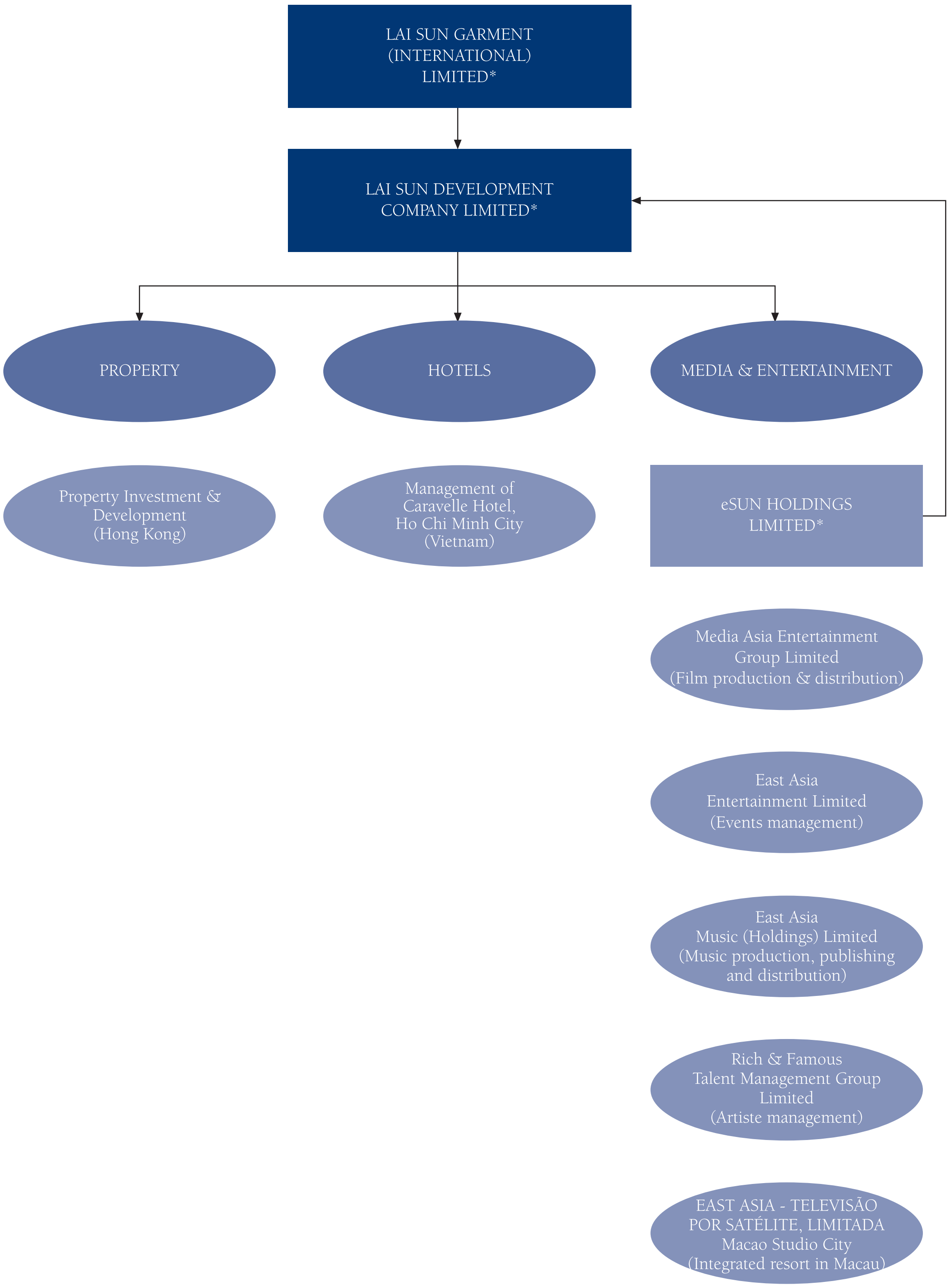
*Stock code on Hong Kong Stock Exchange: 488*

# 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 and investment in Hong Kong, hotel management, media and entertainment business. 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
Lam Bing Kwan*
Leung Shu Yin, William*
Wan Yee Hwa, Edward*

* *Independent non-executive director*

**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.
11th Floor
Central Building
1-3 Pedder Street
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 2008, the Group recorded a turnover of HK$826,506,000 (2007: HK$908,906,000) and a gross profit of HK$564,885,000 (2007: HK$592,188,000), representing a decrease of approximately 9.1% and 4.6% respectively from the previous year. The decrease in turnover and gross profit was largely due to the cessation of the hotel operations of The Ritz-Carlton Hong Kong since 1 February 2008.

During the year, the Group booked a fair value gain on investment properties of HK$721,604,000 (2007: HK$468,758,000), and a gain on disposal of HK$699,036,000 from the disposal of an aggregate of 26.57% interest in Diamond String Limited ("Diamond String"), which owns the property of The Ritz-Carlton Hong Kong. These gains were partially offset by a non-cash provision for tax indemnity of approximately HK$464,632,000. This provision was made due to certain tax indemnity granted by the Group to Lai Fung Holdings Limited ("Lai Fung") in November 1997 at the time of effecting the separate listing of Lai Fung on The Stock Exchange of Hong Kong Limited (Details of this tax indemnity and provision are set out in Note 34(c) to the financial statements of the Group). As a result of the above items, the Group's profit from operating activities increased to HK$1,240,831,000 (2007: HK$774,748,000), an increase of approximately 60.2% from the previous year.

# Chairman's Statement

Share of profits from associates was HK$19,736,000 (2007: HK$1,041,340,000). Such substantial decrease was mainly due to the fact that the share of profits from associates recorded in the previous year included non-recurrent gains on disposal by the Group's associated company, eSun Holdings Limited ("eSun"), of its 60% effective interest in Macao Studio City project, and gain on disposal by the Group's 50%-owned associated company, Fortune Sign Venture Inc., of its entire interest in Majestic Hotel and Majestic Centre, Kowloon, Hong Kong.

For the year ended 31 July 2008, the Group achieved a consolidated profit attributable to equity holders of the Company of HK$1,013,333,000 (2007: HK$1,495,091,000), down by approximately 32.2% from the previous year.

Shareholders' equity as at 31 July 2008 amounted to HK$7,326,935,000, up from HK$6,219,982,000 as at 31 July 2007. Net asset value per share as at 31 July 2008 was HK$0.517, as compared to HK$0.439 as at 31 July 2007.

## DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 July 2008 (2007: Nil)



## BUSINESS REVIEW

### Investment Properties

The Group wholly owns three investment properties for rental purposes, namely Causeway Bay Plaza 2, Cheung Sha Wan Plaza and Lai Sun Commercial Centre. For the year ended 31 July 2008, aggregate gross rental income from investment properties contributed, to the Group's turnover, approximately HK$331,400,000 (2007: HK$299,900,000), up approximately 10.5% from the previous year.

# Chairman's Statement

**Development Properties**

*Wood Road Project, Wanchai*

This joint residential development project is a 50:50 joint venture between the Group and the AIG Global Real Estate Investment (Asia) group. The development has a planned total gross floor area of approximately 140,000 square feet and the total development cost is estimated to be about HK$1,300,000,000.

Foundation work was started in November 2007 and had been completed in September 2008. Superstructure work will commence soon and is scheduled for completion by 2011.

*Tai Po Road Project*

The Group owns 100% of this development project. The development has a planned total gross floor area of over 60,000 square feet mainly for residential use and total development cost is now estimated to be about HK$500,000,000.

Foundation work was started in mid-April 2008 and had been completed in September 2008. Superstructure work has begun and is scheduled for completion by 2010.



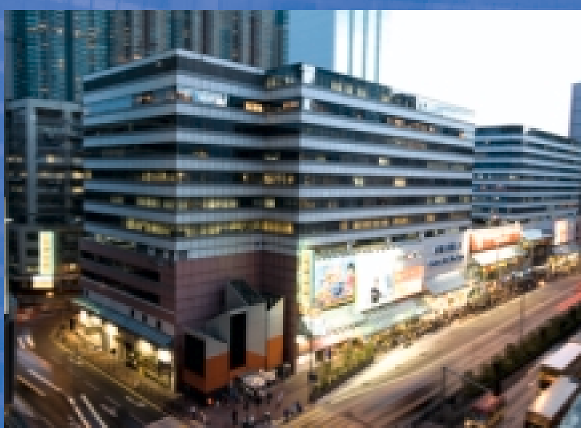
*Yau Tong Project*

The Group completed the purchase of a site located at No. 4 Shung Shun Street, Yau Tong, Kowloon, Hong Kong in September 2008. The consideration of purchase was HK$188 million.

The site, which covers an area of approximately 17,760 square feet, is currently used as an out-door carpark. Subject to approval of lease modification of the site to non-industrial use and payment of relevant land premium, the Group intends to develop the site into a residential-cum-commercial property with a total gross floor area of about 106,000 square feet.

Causeway Bay Plaza 2

Macao Studio City *(architectual rendering)*



Cheung Sha Wan Plaza


3 Connaught Road Central, Hong Kong
*(architectual rendering)*

Wood Road Project
*(architectual rendering)*

Tai Po Road Project
*(architectual rendering)*

# Chairman's Statement

### Hotel Operations

*Occupancy and average daily room rate*

For the year ended 31 July 2008, hotel operations contributed, to the Group's turnover, HK$469,979,000 (2007: 576,796,000), down approximately 18.5% from the previous year. During the year under review, the Group's hotel operations achieved the following average occupancy and average daily room rate compared to the previous year:

| | For the year ended 31 July | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | **Average occupancy (%)** | **Average daily room rate** | Average occupancy (%) | Average daily room rate |
| The Ritz-Carlton Hong Kong (From 1 July 2007 to 1 February 2008) | **82** | **HK$2,855** | 83 | HK$2,743 |
| Caravelle Hotel, Ho Chi Minh City, Vietnam | **64** | **US$205** | 64 | US$163 |



*The redevelopment of The Ritz-Carlton Hong Kong site*

In December 2007, the Group together with the other three original shareholders of Diamond String (the company which owns the property of The Ritz-Carlton Hong Kong) completed the sale of a total of 40% interest in Diamond String to a wholly-owned subsidiary of China Construction Bank Corporation ("CCB"). Out of the aforesaid 40% interest, the Group sold 16.57% interest in Diamond String. On 31 March 2008, the Group completed a further sale of a 10% stake in Diamond String to CCB.

Upon completion of these disposals, the Group received sale proceeds of HK$997,794,000 and booked gains on disposal of HK$699,036,000. The Group and CCB now hold 50% interest each in Diamond String, and both will invest, through Diamond String, in the redevelopment of the site of The Ritz-Carlton Hong Kong into a grade-A office tower.

Following the cessation of the hotel operations of The Ritz-Carlton Hong Kong on 1 February 2008, demolition work began in April 2008. The redevelopment is expected to be completed in 2012.

# Chairman's Statement

The buildable gross floor area for the redevelopment at 3 Connaught Road Central, Hong Kong is approximately 225,000 square feet. The redeveloped office tower is expected to 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.

**eSun and Macao Studio City**

For the year ended 31 July 2008, share of profits from eSun was approximately HK$25,661,000 (2007: share of profits of HK$626,241,000). The change in the share of results in eSun was largely due to the fact that the share of profits from eSun recorded in the previous year included non-recurrent gains on disposal of a 60% effective interest in the Macao Studio City project.

*Development progress of Macao Studio City*

Macao Studio City joint venture ("Macao Studio City JV") is owned as to effectively 40% by eSun, 40% by New Cotai, LLC (the US joint venture partner) and 20% by CapitaLand Group. Macao Studio City will be developed into an integrated leisure resort combining theatre/concert venues, live entertainment facilities, Studio Retail™ (a destination retail complex), Las Vegas style gaming facilities and world class hotels.

As at the date of this report, foundation work for Phase I of the project has been completed. Given the current extremely uncertain market conditions, construction for superstructure work of Phase I of the project will not commence until the debt financing exercise is finalised. Construction schedule and formal opening of Phase I will now depend on the timing of the conclusion of the debt financing exercise.

*Approval of Land Grant Modification of Macao Studio City*

Macao Studio City JV had earlier applied for a land grant modification, the principal effects of which were (a) to increase the gross floor area of the Macao Studio City project from 340,000 square metres (3,659,760 square feet) to 560,000 square metres (6,027,840 square feet) and (b) to amend the land uses to five-star hotels and film production facilities.

On 26 September 2008, the Macau Government issued an indicative offer to the effect that the Macau Government would be prepared to grant the land grant modification for the increased gross floor area sought as well as the amended uses. Acceptance of this indicative offer was filed with the Macau Government on 14 October 2008. The application will now be subject to further review by the Macau Government and possible amendments.

# Chairman's Statement

*Financing for the development of Macao Studio City*

The current extreme volatile and negative sentiment of global capital markets make it difficult for eSun to ascertain the exact timing when the debt financing exercise for the development of Macao Studio City may be realised.

As at the date of this report, the shareholders of Macao Studio City JV have already contributed US$200 million in working capital towards the Macao Studio City project. As envisaged by the Memorandum of Understanding dated 9 November 2007, shareholders of Macao Studio City JV agreed to increase shareholders' contribution to the Macao Studio City project, on a several basis, to US$500 million, subject to the approval of the shareholders of eSun and further negotiation of the definitive documents to reflect and expand upon matters agreed in the Memorandum of Understanding. In October 2008, the Memorandum of Understanding was terminated. Although as a result of the termination, the parties are no longer under a legal obligation to use their respective reasonable commercial endeavours to conclude the definitive documentation referred to in the Memorandum of Understanding, various ancillary provisions of the Memorandum of Understanding continue to have legal effect. Hence, it now requires longer time to negotiate with other shareholders of the project for the overall funding plan for the Macao Studio City project. eSun remains committed to negotiate in good faith to reach agreement with other shareholders in this regard.



With the completion of a rights issue by eSun in May 2008 raising net proceeds of approximately HK$1,015 million, eSun is still prepared to provide additional funding to the Macao Studio City project depending on the settlement of overall funding plan for the project.

## PROSPECTS

In the last few months, the US financial crisis materialised, resulting in a meltdown of global financial markets. Credit crunch, crash in financial markets and the worry of global economic recession are affecting every single economy in the world. As one of the most open economies in the world, Hong Kong will inevitably experience the slowdown in its economy. With continuous improvement of our operations and disposal of assets in recent years, the Group has a healthy balance sheet with a reasonable leverage. Under current circumstances, the Group will maintain a prudent approach to manage our businesses.

# Chairman's Statement

**Property investment**

With most of the world's economy going into recession in the coming year, the Group believes that retail and office rental rates in Hong Kong will be under pressure. With close to full occupancy in our investment properties at the moment, the Group has in the past economic cycle successfully strengthened its tenant and trade mix, and believes to be well prepared to operate through the difficult economic sentiment ahead.

**Property development**

In anticipation of a possible sharp downturn in the local economy, negative market sentiment has been hammering the prices of residential properties in Hong Kong in the past two months. The Group currently holds a few residential projects under development in Hong Kong. As two of the Group's development properties, Wanchai Wood Road project and Tai Po Road project, are both in early development phase, the Group's development and realisation plan are not severely affected by the market at the moment. Given the shortage in supply in core city areas in Hong Kong, the Group is still cautiously optimistic on the Hong Kong residential properties in the longer term.

The Group will monitor the local property market very closely and will continue to adopt a prudent approach in acquiring new development projects in future.



**Hotel management**

Following the disposal of all hotel assets in 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"), is expected to focus on managing hotel rooms and serviced apartments in the region, including Greater China and Vietnam. FHRI will utilise its renowned brand and services and will seek to sign new hotel management contracts in the region.

**eSun and Macao Studio City**

Given the current extremely uncertain global economic conditions, eSun will keep monitoring and manage the risks of the Macao Studio City project and, as a substantial shareholder, put forward and adjust its development and financing plans in the best interests of the project and its shareholders.

# Chairman's Statement

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 July 2008, the Group had consolidated net assets of approximately HK$7,327 million (as at 31 July 2007: HK$6,220 million).

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations and loan facilities provided by banks.

As at 31 July 2008, the Group had outstanding borrowings of approximately HK$1,875 million representing secured bank borrowings (as at 31 July 2007: HK$2,345 million secured bank and other borrowings). The debt to equity ratio as expressed in a percentage of the total outstanding borrowings to consolidated net assets was approximately 26%. The maturity profile of the bank borrowings of HK$1,875 million was spread over a period of less than 5 years with HK$152 million repayable within 1 year, HK$1,509 million repayable in the second year and HK$214 million repayable in the third to fifth years. As at 31 July 2008, all the Group's borrowings carried interest on a floating rate basis.



As at 31 July 2008, certain investment properties with carrying amounts of approximately HK$5,328 million, certain property, plant and equipment with carrying amounts of approximately HK$267 million, prepaid land lease payments of approximately HK$29 million, certain properties under development of approximately HK$344 million and certain bank balances and time deposits with banks of approximately HK$94 million were pledged to banks to secure banking facilities granted to the Group. In addition, certain shares in subsidiaries held by the Group were also pledged to banks to secure loan facilities granted to the Group. Certain shares of associates beneficially owned by the Group were pledged to banks to secure loan facilities granted to certain associates of the Group. Certain shares of an investee company held by the Group were pledged to a bank to secure a loan facility granted to this investee company. The Group's secured bank 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 State dollars. All of the Group's borrowings are 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 34 to the financial statements.

## EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,000 (as at 31 July 2007:1,300) employees as at 31 July 2008. The significant decrease in the number of employees is due to the cessation of the hotel operations of The Ritz-Carlton Hong Kong during the year. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a share option scheme, a number of retirement benefit schemes for all the eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

## APPRECIATION

I take this opportunity to extend my gratitude to the management and staff for their concerted efforts in meeting the challenges ahead. I would also like to express gratitude to our shareholders and business associates for their valuable support during the year.



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

Hong Kong
7 November 2008

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 July 2008.

## 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 subsidiaries are set out in note 20 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 2008 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 41 to 127.

The directors do not recommend the payment of a dividend for the year ended 31 July 2008 (2007: Nil). No interim dividend was paid or declared in respect of the year ended 31 July 2008 (2007: Nil).

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in notes 29 to the financial statements.



## DIRECTORS

The directors of the Company who were in office during the year and those as 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
Leung Churk Yin, Jeanny
Lam Kin Ming
U Po Chu
Lam Bing Kwan*
Leung Shu Yin, William*
Wan Yee Hwa, Edward* (appointed on 16 June 2008)
Sir David Tang* (resigned on 16 June 2008)

* *Independent non-executive directors*

# Report of the Directors

## DIRECTORS (continued)

Mr. Wan Yee Hwa, Edward was appointed an independent non-executive director of the Company on 16 June 2008. In accordance with Article 93 of the Company's Articles of Association, Mr. Wan will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 102 of the Company's Articles of Association, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven, Mr. Cheung Wing Sum, Ambrose, Mr. Lam Kin Ming and Mr. Lam Bing Kwan will 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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

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 interests and/or directorship in companies engaged in the production of pop concerts and management of artistes.

Mr. Lam Kin Ngok, Peter held interests and/or directorship in companies engaged in investment in and operation of restaurants in Hong Kong.

Mr. Tam Kin Man, Kraven and Miss Leung Churk Yin, Jeanny held directorships in Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company. LSG is engaged in property investment and property development in Hong Kong.

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 in view of:

(1) the different locations and different uses of the properties owned by the above companies and those of the Group; and

(2) the different target customers of the restaurant operation and the concert production of the above companies and those 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 independently of, and at arm's length from, the businesses of such companies.

# Report of the Directors

## DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Directors**

*Executive Directors*

**Mr. Lam Kin Ngok, Peter**, Chairman, aged 51, 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, an executive director of eSun Holdings Limited ("eSun") and Crocodile Garments Limited, and the chairman of Media Asia Entertainment Group 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 Hong Kong-Vietnam Chamber of Commerce Limited and the Real Estate Developers Association of Hong Kong. Mr. Lam is a member of the 11th National Committee of the Chinese People's Political Consultative Conference. 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 52, 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. Lau has entered into a service contract with the Company in which he will receive remuneration and discretionary bonus, to 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. He will be subject to retirement by rotation once every three years since his last election in 2005 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. Save as aforesaid, Mr. Lau does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Lau holds interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance as disclosed under the "Directors' Interests" sections of this report. Save as disclosed above, there are no other matters relating to Mr. Lau 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.

# Report of the Directors

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

### Directors (continued)

*Executive Directors (continued)*

**Mr. Tam Kin Man, Kraven**, aged 60, 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 18 years' experience in the hospitality business including hotels, restaurants and clubs in Asia and North America.

Mr. Tam has entered into a service contract with the Company in which he will receive remuneration and discretionary bonus, to 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. He will be subject to retirement by rotation once every three years since his last election on 2005 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. Save as aforesaid, Mr. Tam 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. Tam 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. Cheung Wing Sum, Ambrose**, aged 57, 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 KH Wong, Kennedy Y H Wong & Co and an executive director of Sino Land Company Limited. Mr. Cheung is also an executive director of eSun Holdings Limited, a 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 Advisory Committee, School of Hotel and Tourism Management, The Chinese University of Hong Kong.

# Report of the Directors

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

**Directors (continued)**

*Executive Directors (continued)*

Mr. Cheung does not have a service contract with the Company but will be subject to retirement by rotation once every three years since his last election in 2005 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. Mr. Cheung 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, Mr. Cheung does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Cheung holds interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance as disclosed under the "Directors' Interests" sections of this report. 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 of Hong Kong Limited.

**Mr. Cheung Sum, Sam**, aged 44, 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 privatized in August 2007. Before that, he 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.



**Miss Leung Churk Yin, Jeanny**, aged 43, 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 an independent 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. Miss Leung has over 20 years of corporate finance experience in Hong Kong, China and Taiwan.

# Report of the Directors

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

**Directors (continued)**

*Non-Executive Directors*

**Mr. Lam Kin Ming**, aged 71, 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 (the "Stock Exchange"). Mr. Lam has been involved in the management of garment business since 1958. He is the elder brother of Mr. Lam Kin Ngok, Peter.

Mr. Lam does not have a service contract with the Company but will be subject to retirement by rotation once every three years since his last election in 2005 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. Mr. Lam 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, Mr. Lam 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. Lam 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.



**Madam U Po Chu**, aged 83, 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. She is the mother of Mr. Lam Kin Ngok, Peter.

**Mr. Lam Bing Kwan**, aged 59, 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 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 (the "Stock Exchange).

# Report of the Directors

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

**Directors (continued)**

*Non-Executive Directors (continued)*

Mr. Lam does not have a service contract with the Company but will be subject to retirement by rotation once every three years since his last election in 2005 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. He 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, Mr. Lam 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. Lam 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.

**Mr. Leung Shu Yin, William**, aged 59, 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 two 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. Wan Yee Hwa, Edward**, aged 72, was appointed an independent non-executive director of the Company in June 2008. He is a fellow of the Hong Kong Institute of Certified Public Accountants and has been a certified public accountant in Hong Kong since 1961. He is an independent non-executive director of Lai Sun Garment (International) Limited ("LSG") and Crocodile Garments Limited. LSG is a substantial shareholder of the Company.

Mr. Wan does not have a service contract with the Company but will be subject to retirement by rotation once every three years since his election 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. He 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, Mr. Wan 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. Wan 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.

# Report of the Directors

## ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme disclosed in note 30 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 acquisition of shares in or debentures of the Company or any other body corporate.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 22 December 2006 for the purpose of providing incentives and rewards to Participants as defined in the Share Option Scheme.

Details of the Share Option Scheme are included in note 30 to the financial statements.

## DIRECTORS' INTERESTS

As at 31 July 2008, 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 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

| | Long positions in the shares | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of Director | Personal Interests | Family Interests | Corporate Interests | Other Interest | Capacity | Total | Percentage |
| Lam Kin Ngok, Peter | 10,099,585 | Nil | 1,582,869,192 (Note 1) | Nil | Beneficial owner | 1,592,968,777 | 11.25% |
| Lau Shu Yan, Julius | 1,200,000 | Nil | Nil | 60,000,000 (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:*

1. 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.

2. Madam U Po Chu is the widow of the late Mr. Lim Por Yen, whose estate includes an interest in 197,859,550 shares of the Company.

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### (1) The Company (continued)

3. A share option scheme (the "Scheme") was adopted by the Company on 22 December 2006 and became effective on 29 December 2006 and will remain in force for a period of 10 years. Details of the share options granted to the above director are set out below:

| Name of director | Date of grant | No. of share option outstanding | Option exerciseable period | Subscription price per share |
|---|---|---|---|---|
| Lau Shu Yan, Julius | 19/01/2007 | 15,000,000 | 19/01/2007 – 31/12/2010 | HK$0.45 |
| | 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 |

During the year under review, no options were granted, exercised, cancelled or had lapsed in accordance with the terms of the Scheme. As at 31 July 2008, 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 that date.

### (2) Associated Corporation

eSun Holdings Limited ("eSun")



| | Long positions in shares of eSun | | | | | | |
|---|---|---|---|---|---|---|---|
| Name of director | Personal interest | Family interests | Corporate interests | Other interests | Capacity | Total | Percentage |
| Lam Kin Ngok, Peter | 2,794,443 | Nil | Nil | 5,668,519 (Note) | Beneficial owner | 8,462,962 | 0.68% |
| Cheung Wing Sum, Ambrose | 2,794,443 | Nil | Nil | 5,668,519 (Note) | Beneficial owner | 8,462,962 | 0.68% |
| Leung Churk Yin, Jeanny | Nil | Nil | Nil | 5,071,240 (Note) | Beneficial owner | 5,071,240 | 0.41% |

Note

An employee share option scheme was adopted by eSun on 23 December 2005 and became effective on 5 January 2006 and will remain in force for a period of 10 years. Details of the share options granted to the above directors as at 31 July 2008 are set out below:

## DIRECTORS' INTERESTS (continued)

### (2) Associated Corporation (continued)

eSun Holdings Limited ("eSun")

*Note:*

| | | Number of share option | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of director | Date of grant | 1 August 2007 | Granted during the year | Exercised* during the year | Adjusted# during the year | At 31 July 2008 | Option exerciseable period | Adjusted# subscription price per share |
| Lam Kin Ngok, Peter | 24/02/2006 | 1,862,962 | — | 1,862,962 | — | — | 01/01/2007 – 31/12/2007 | — |
| | 24/02/2006 | 1,862,962 | — | — | 26,544 | 1,889,506 | 01/01/2008 – 31/12/2008 | HK$4.19 |
| | 24/02/2006 | 1,862,962 | — | — | 26,544 | 1,889,506 | 01/01/2009 – 31/12/2009 | HK$4.43 |
| | 24/02/2006 | 1,862,963 | — | — | 26,544 | 1,889,507 | 01/01/2010 – 31/12/2010 | HK$4.68 |
| Cheung Wing Sum, Ambrose | 24/02/2006 | 1,862,962 | — | 1,862,962 | — | — | 01/01/2007– 31/12/2007 | — |
| | 24/02/2006 | 1,862,962 | — | — | 26,544 | 1,889,506 | 01/01/2008 – 31/12/2008 | HK$4.19 |
| | 24/02/2006 | 1,862,962 | — | — | 26,544 | 1,889,506 | 01/01/2009 – 31/12/2009 | HK$4.43 |
| | 24/02/2006 | 1,862,963 | — | — | 26,544 | 1,889,507 | 01/01/2010 – 31/12/2010 | HK$4.68 |
| Leung Churk Yin, Jeanny | 20/02/2008 | — | 1,250,000 | — | 17,810 | 1,267,810 | 01/05/2008 – 30/04/2009 | HK$5.54 |
| | 20/02/2008 | — | 1,250,000 | — | 17,810 | 1,267,810 | 01/01/2009 – 31/12/2009 | HK$5.83 |
| | 20/02/2008 | — | 1,250,000 | — | 17,810 | 1,267,810 | 01/01/2010 – 31/12/2010 | HK$6.18 |
| | 20/02/2008 | — | 1,250,000 | — | 17,810 | 1,267,810 | 01/01/2011 – 31/12/2011 | HK$6.52 |



* The options were exercised at the subscription price of HK$4.00 per share.

\# The number of the outstanding share options and the subscription price of the share options had been adjusted following completion of the rights issue of eSun in May 2008.

During the year, no share options were cancelled or had lapsed in accordance with the terms of the share option scheme of eSun.

Save as disclosed above, as at 31 July 2008, 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 2008, the following persons, one of whom is a director of the Company, had an interest in the following long positions and short 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% (Note 1) |
| Lam Kin Ngok, Peter | Beneficial owner | Personal and Corporate | 1,592,968,777 | 11.25% (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% (Note 2) |
| Chen Din Hwa | Owner of controlled corporation | Corporate | 1,047,079,435 | 7.39% (Note 3) |
| Chen Yang Foo Oi | Interest of spouse | Family | 1,047,079,435 | 7.39% (Note 4) |
| Paul G. Desmarais | Owner of controlled corporation | Corporate | 1,300,000,000 | 9.18% (Note 5) |
| Nordex Inc ("Nordex") | Owner of controlled corporation | Corporate | 1,300,000,000 | 9.18% (Note 5) |
| Gelco Enterprises Limited ("Gelco") | Owner of controlled corporation | Corporate | 1,300,000,000 | 9.18% (Note 5) |
| Power Corporation of Canada ("Power C") | Owner of controlled corporation | Corporate | 1,300,000,000 | 9.18% (Note 5) |
| Power Financial Corporation ("Power F") | Owner of controlled corporation | Corporate | 1,300,000,000 | 9.18% (Note 5) |
| IGM Financial Inc. ("IGM") | Owner of controlled corporation | Corporate | 1,300,000,000 | 9.18% (Note 5) |

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

| Name | Capacity | Long positions in the shares<br>Nature | Number of shares | Percentage |
|---|---|---|---|---|
| Peter Cundill & Associates (Bermuda) Limited | Investment Manager | Corporate | 903,108,000 | 6.38% |

*Notes:*

1. 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.

2. Xing Feng was taken to be interested in 781,346,935 shares beneficially owned by Nice Cheer due to its corporate interest therein.

3. 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, 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.

4. 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.

5. Mr. Paul G. Desmarais was taken to be interested in 1,300,000,000 shares by virtue of his corporate interest in Nordex.

   Nordex was deemed to be interested in 1,300,000,000 shares due to its corporate interest in Gelco.

   Gelco was deemed to be interested in 1,300,000,000 shares by virtue of its corporate interest in Power C.

   Power C was deemed to be interested in 1,300,000,000 shares by virtue of its corporate interest in Power F.

   Power F was deemed to be interested in 1,300,000,000 shares by virtue of its corporate interest in IGM.

   IGM was deemed to be interested in 1,300,000,000 shares by virtue of its corporate interest in Mackenzie Inc., Mackenzie Financial Corporation and Mackenzie Cundill Investment Management Limited.

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 2008.

# 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 2007, 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 (the "Premises") 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).

The Company announced on 30 October 2008 that on 28 October 2008 the Company and Big Honor entered into the offer letter in respect of the Premises for a term of twenty-four months commencing from 1 July 2008 to 30 June 2010 at a monthly rental of HK$95,200 (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.



(2) As reported in the annual report of the Company for the year ended 31 July 2007, on 4 January 2007, the Company entered into the offer letter with Crocodile Garments Limited ("CGL") for Unit 1001, 10th Floor, Lai Sun Commercial Centre, 680 Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong 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).

CGL is an associate of Mr. Lam Kin Ming, a non-executive director of the Company, 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.

## CONTINUING CONNECTED TRANSACTIONS (continued)

(3) As reported in the annual report of the Company for the year ended 31 July 2007, 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 of 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)

eSun holds a 36.72% interests 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.

(4) The Company announced on 30 October 2008 that on 28 October 2008, Gilroy, a subsidiary of the Company, entered into the offer letter with eSun, pursuant to which Gilroy agreed to lease to eSun Units 1403-1407 on the 14th Floor, Causeway Bay Plaza 2, 463-483 Lockhart Road, Hong Kong for a term of one year commencing from 9 July 2008 to 8 July 2009 at the monthly rental of HK$147,219 (exclusive of rates, government rent, management fee, air-conditioning charges and other outgoings).

eSun is a connected person of the Company and the offer letter between Gilroy and eSun therefore constitutes a continuing connected transaction for the Company under 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 agreement 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 connection transactions in accordance with the Listing Rules.

# Report of the Directors

## 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/ commercial/ 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/ commercial/ 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/ commercial/ carpark |
| 4. | AIG Tower<br>1 Connaught Road 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/ carpark |

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

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

| | Location | Group interest | Stage of construction | Expected completion date | Expected use | Gross floor area |
|---|---|---|---|---|---|---|
| 1. | 28 Tai Po Road<br>Kowloon<br>Hong Kong | 100% | Superstructure work in progress | 2010 | Residential/ commercial | The total site area is approximately 7,150 sq.ft. The total gross floor area will be approximately 60,400 sq.ft. |
| 2. | 4 Shung Shun Street<br>Yau Tong, Kowloon<br>Hong Kong | 100% | Vacant site and lease modification in progress | Not yet determined | Residential | The total site area is approximately 17,000 sq.ft. The total gross floor area will be approximately 108,500 sq.ft. |
| 3. | 3 Connaught Road Central<br>Hong Kong | 50% | Demolition work in progress | 2012 | Office | The total site area is approximately 14,900 sq.ft. The total gross floor area will be approximately 224,000 sq.ft. |
| 4. | 28 Wood Road<br>Wanchai<br>Hong Kong | 50% | Foundation work completed | 2011 | Residential/ commercial | The total site area is approximately 13,300 sq.ft. The total gross floor area will be approximately 143,000 sq.ft. |

# Report of the Directors

## 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 15, 17 and 18, respectively, to the financial statements. Further details of the Group's investment properties and properties under development are set out above under the heading "Details of properties."

## 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 is set out below.

## RESULTS

| | Year ended 31 July | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TURNOVER | **826,506** | 908,906 | 793,807 | 788,799 | 2,109,513 |
| PROFIT/(LOSS) BEFORE TAX | **1,176,586** | 1,665,250 | 629,758 | (373,750) | 229,363 |
| Tax | **(96,318)** | (118,410) | (80,656) | (197,446) | 198,979 |
| PROFIT/(LOSS) FOR THE YEAR | **1,080,268** | 1,546,840 | 549,102 | (571,196) | 428,342 |
| Attributable to: | | | | | |
| Equity holders of the Company | **1,013,333** | 1,495,091 | 512,922 | (705,962) | 381,435 |
| Minority interests | **66,935** | 51,749 | 36,180 | 134,766 | 46,907 |
| | **1,080,268** | 1,546,840 | 549,102 | (571,196) | 428,342 |

# Report of the Directors

## ASSETS AND LIABILITIES

| | As at 31 July | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Property, plant and equipment | **335,775** | 1,230,513 | 1,265,621 | 1,298,496 | 1,303,627 |
| Prepaid land lease payments | **29,121** | 30,148 | 31,176 | 14,550 | 29,915 |
| Investment properties | **5,336,000** | 4,614,600 | 4,124,700 | 3,808,700 | 3,207,980 |
| Properties under development | **451,558** | 106,942 | 61,197 | 1,462 | 1,424 |
| Goodwill | **—** | 152,700 | 4,005 | 6,294 | 8,583 |
| Interests in associates | **2,770,370** | 1,734,563 | 1,115,830 | 1,020,080 | 1,142,822 |
| Available-for-sale financial assets | **453,200** | 743,516 | 519,172 | 559,748 | 287,245 |
| Pledged bank balances and time deposits | **94,121** | 95,138 | 95,652 | 62,341 | — |
| Deposits | **18,800** | 36,500 | — | — | — |
| Current assets | **1,408,178** | 1,097,946 | 518,160 | 601,465 | 760,469 |
| TOTAL ASSETS | **10,897,123** | 9,842,566 | 7,735,513 | 7,373,136 | 6,742,065 |
| Current liabilities | **(353,086)** | (581,167) | (522,252) | (402,819) | (6,430,397) |
| Interest-bearing bank and other borrowings | **(1,722,703)** | (1,933,139) | (2,234,551) | (2,583,509) | — |
| Deferred tax | **(785,523)** | (727,972) | (625,100) | (551,756) | (361,262) |
| Provision for tax indemnity | **(464,632)** | — | — | — | — |
| Long term rental deposits received | **(44,431)** | (47,155) | (31,605) | (36,891) | (29,122) |
| TOTAL LIABILITIES | **(3,370,375)** | (3,289,433) | (3,413,508) | (3,574,975) | (6,820,781) |
| MINORITY INTERESTS | **(199,813)** | (333,151) | (384,881) | (366,090) | (389,722) |
| NET ASSETS/ (DEFICIENCY IN ASSETS) ATTRIBUTABLE TO EQUITY HOLDERS OF COMPANY | **7,326,935** | 6,219,982 | 3,937,124 | 3,432,071 | (468,438) |

# Report of the Directors

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 July 2008, the Company did not have any reserves for distribution, in accordance with the provisions of Section 79B of the Companies Ordinance.

## 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.

# Report of the Directors

## DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES ("CHAPTER 13")

**Financial assistance and guarantees to affiliated companies (Rule 13.22 of Chapter 13)**

As at 31 July 2008, the aggregate amount of financial assistance and guarantees given for facilities granted to affiliated companies has exceeded the assets ratio of 8% under the Listing Rules.

In compliance with Rule 13.22 of Chapter 13, the proforma combined balance sheet of the affiliated companies at 31 July 2008 is disclosed as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 243,791 |
| Goodwill | 35,202 |
| Film rights | 132,359 |
| Film products | 52,925 |
| Music catalogs | 60,694 |
| Interest in jointly controlled entities | 1,060,205 |
| Interests in associates | 2,745,948 |
| Available-for-sale investments | 67,242 |
| Deposits, prepayments and other receivables | 77,234 |
| Deferred tax assets | 4,298 |
| Properties under development | 1,953,113 |
| Amounts due from shareholders | 30,747 |
| Net current assets | 1,675,643 |
| Total assets less current liabilities | 8,139,401 |
| Promissory notes | (50,741) |
| Long term borrowings | (523,897) |
| Deferred tax | (44) |
| Deferred income | (44,808) |
| Amounts due to shareholders | (2,120,501) |
| | (2,739,991) |
| | 5,399,410 |
| CAPITAL AND RESERVES | |
| Issued capital | 629,892 |
| Share premium account | 4,227,678 |
| Contributed surplus | 891,289 |
| Investment revaluation reserve | 171,623 |
| Share option reserve | 25,419 |
| Exchange fluctuation reserve | (12,723) |
| Accumulated losses | (884,975) |
| | 5,048,203 |
| Minority interests | 351,207 |
| | 5,399,410 |

# Report of the Directors

## DONATIONS

During the year, the Group made charitable contributions amounting to approximately HK$3,140,000.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 July 2008, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules from the date of the last Annual Report of the Company to the date of this Annual Report.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 35 to 38 of the 2007-2008 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
7 November 2008

# 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 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1 January 2005.

## (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 21 December 2007.



## (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 to 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 2008.

## (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 Miss 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. Lam Bing Kwan, Mr. Leung Shu Yin, William and Mr. Wan Yee Hwa, Edward.

# Corporate Governance Report

## (3) BOARD OF DIRECTORS (continued)

(3.3) The Board met four times during the year ended 31 July 2008. The attendance record of individual directors at these board meetings is set out in the following table:

| Directors | Board Meetings Held | Board Meetings Attended |
|---|---|---|
| **Executive directors** | | |
| Lam Kin Ngok, Peter (Chairman) | 4 | 3 |
| Lau Shu Yan, Julius (Chief Executive Officer) | 4 | 3 |
| Tam Kin Man, Kraven | 4 | 4 |
| Cheung Wing Sum, Ambrose | 4 | 4 |
| Cheung Sum, Sam | 4 | 4 |
| Leung Churk Yin, Jeanny | 4 | 4 |
| **Non-executive directors** | | |
| Lam Kin Ming | 4 | 2 |
| U Po Chu | 4 | 0 |
| **Independent non-executive directors** | | |
| Lam Bing Kwan | 4 | 3 |
| Leung Shu Yin, William | 4 | 3 |
| Wan Yee Hwa, Edward* | 1 | 1 |
| Sir David Tang* | 3 | 1 |

* Sir David Tang resigned on 16 June 2008 and Mr. Wan Yee Hwa, Edward was appointed a director on the same day.

(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 currently comprises three independent non-executive directors, namely Messrs. Leung Shu Yin, William (Chairman), Lam Bing Kwan and Wan Yee Hwa, Edward, and an executive director, Miss 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 one meeting during the year under review to discuss remuneration-related matters and was attended by all the current members.

## (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$2,863,000 for the year under review. Ernst & Young also received fees amounting to HK$703,000 for providing non-audit services to the Company and its subsidiaries during the year.

# Corporate Governance Report

### (9) AUDIT COMMITTEE

(9.1) The Board established an audit committee on 31 March 2000, which comprises the three independent non-executive Directors, namely Messrs. Wan Yee Hwa, Edward (chairman), Lam Bing Kwan and Leung Shu Yin, William.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of the periodic 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 and Sir David Tang, Mr. Lam Bing Kwan and Mr. Leung Shu Yin, William attended both meetings.

Sir David Tang resigned as an independent non-executive director of the Company and ceased to be a member of the audit committee on 16 June 2008. Mr. Wan Yee Hwa, Edward was appointed an independent non-executive director of the Company and as a member of the audit committee on 16 June 2008 to fill the vacancy arising from the resignation of Sir David Tang.

(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 CONTROL

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

# Independent Auditors' Report

ERNST & YOUNG
安 永

**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 41 to 127, which comprise the consolidated and company balance sheets as at 31 July 2008, 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

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 2008 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
7 November 2008

# Consolidated Income Statement

Year ended 31 July 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| TURNOVER | 6 | **826,506** | 908,906 |
| Cost of sales | | **(261,621)** | (316,718) |
| Gross profit | | **564,885** | 592,188 |
| Other revenue | 6 | **125,012** | 63,930 |
| Administrative expenses | | **(307,594)** | (300,286) |
| Other operating expenses, net | | **(97,480)** | (52,273) |
| Fair value gain on investment properties | 17 | **721,604** | 468,758 |
| Gain on disposal of subsidiaries | 7 | **699,036** | 2,431 |
| Provision for tax indemnity | 34(c) | **(464,632)** | — |
| PROFIT FROM OPERATING ACTIVITIES | 8 | **1,240,831** | 774,748 |
| Finance costs | 9 | **(104,078)** | (150,125) |
| Share of profits and losses of associates | | **19,736** | 1,041,340 |
| Discount on acquisition of additional interests in an associate | | **22,761** | — |
| Loss on deemed disposal of interest in an associate | | **(2,664)** | (713) |
| PROFIT BEFORE TAX | | **1,176,586** | 1,665,250 |
| Tax | 12 | **(96,318)** | (118,410) |
| PROFIT FOR THE YEAR | | **1,080,268** | 1,546,840 |
| Attributable to: | | | |
| Equity holders of the Company | 13 | **1,013,333** | 1,495,091 |
| Minority interests | | **66,935** | 51,749 |
| | | **1,080,268** | 1,546,840 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 14 | | |
| Basic | | **HK7.16 cents** | HK10.91 cents |
| Diluted | | **HK7.16 cents** | HK10.85 cents |

# Consolidated Balance Sheet

31 July 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **335,775** | 1,230,513 |
| Prepaid land lease payments | 16 | **29,121** | 30,148 |
| Investment properties | 17 | **5,336,000** | 4,614,600 |
| Properties under development | 18 | **451,558** | 106,942 |
| Goodwill | 19 | **—** | 152,700 |
| Interests in associates | 21 | **2,770,370** | 1,734,563 |
| Available-for-sale financial assets | 22 | **453,200** | 743,516 |
| Pledged bank balances and time deposits | 23 | **94,121** | 95,138 |
| Deposits | 26(a) | **18,800** | 36,500 |
| Total non-current assets | | **9,488,945** | 8,744,620 |
| CURRENT ASSETS | | | |
| Completed properties for sale | 24 | **2,350** | 2,350 |
| Equity investments at fair value through profit or loss | 25 | **49,842** | — |
| Inventories | | **4,429** | 5,798 |
| Debtors and deposits | 26(a) | **96,209** | 124,712 |
| Cash and cash equivalents | 23 | **1,255,348** | 965,086 |
| Total current assets | | **1,408,178** | 1,097,946 |
| CURRENT LIABILITIES | | | |
| Creditors, deposits received and accruals | 26(b) | **176,828** | 156,334 |
| Tax payable | | **24,083** | 12,663 |
| Interest-bearing bank and other borrowings | 27 | **152,175** | 412,170 |
| Total current liabilities | | **353,086** | 581,167 |
| NET CURRENT ASSETS | | **1,055,092** | 516,779 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **10,544,037** | 9,261,399 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 27 | **(1,722,703)** | (1,933,139) |
| Deferred tax | 28 | **(785,523)** | (727,972) |
| Provision for tax indemnity | 34(c) | **(464,632)** | — |
| Long term rental deposits received | | **(44,431)** | (47,155) |
| Total non-current liabilities | | **(3,017,289)** | (2,708,266) |
| | | **7,526,748** | 6,553,133 |

# Consolidated Balance Sheet

31 July 2008

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| EQUITY | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | 29 | **141,620** | 141,620 |
| Share premium account | 29 | **6,974,701** | 6,974,701 |
| Investment revaluation reserve | | **464,780** | 377,226 |
| Share option reserve | | **16,694** | 13,778 |
| Capital redemption reserve | | **1,200,000** | 1,200,000 |
| General reserve | 29(a) | **504,136** | 479,201 |
| Special capital reserve | 29(a) | **46,885** | — |
| Exchange fluctuation reserve | | **41,978** | 38,828 |
| Accumulated losses | | **(2,063,859)** | (3,005,372) |
| | | **7,326,935** | 6,219,982 |
| **Minority interests** | | **199,813** | 333,151 |
| | | **7,526,748** | 6,553,133 |



**Lam Kin Ngok, Peter**
*Director*

**Lau Shu Yan, Julius**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 July 2008

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account HK$'000 | Investment revaluation reserve HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | General reserve HK$'000 | Special capital reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 August 2006 | 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 29(a)) | (6,245,561) | 626,561 | – | – | – | – | – | – | 5,619,000 | – | – | – |
| Issue of shares (Note 29 (b)) | 14,160 | 495,600 | – | – | – | – | – | – | – | 509,760 | – | 509,760 |
| Share issue expenses (Note 29 (b)) | – | (5,624) | – | – | – | – | – | – | – | (5,624) | – | (5,624) |
| Equity-settled share option arrangements (Note 30) | – | – | – | 6,572 | – | – | – | – | – | 6,572 | – | 6,572 |
| Transfer of reserves (Note 29(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 interest of a subsidiary from minority shareholders | – | – | – | – | | | | – | – | – | (68,479) | (68,479) |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | (450) | (450) |
| At 31 July 2007 and 1 August 2007 - page 45 | 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 Statement of Changes in Equity

Year ended 31 July 2008

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account HK$'000 | Investment revaluation reserve HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | General reserve HK$'000 | Special capital reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 31 July 2007 and 1 August 2007 - page 44 | 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 |
| Exchange realignments: | | | | | | | | | | | | |
| Subsidiaries | – | – | – | – | – | – | – | 1,310 | – | 1,310 | – | 1,310 |
| Associates | – | – | – | – | – | – | – | 2,126 | – | 2,126 | – | 2,126 |
| Changes in fair values of available-for-sale financial assets | – | – | 76,772 | – | – | – | – | – | – | 76,772 | – | 76,772 |
| Share of reserve movements of associates | – | – | 11,178 | 2,916 | – | – | – | – | – | 14,094 | – | 14,094 |
| Total income recognised directly in equity | – | – | 87,950 | 2,916 | – | – | – | 3,436 | – | 94,302 | – | 94,302 |
| Release upon deemed disposal of interest in an associate | – | – | (396) | – | – | – | – | (286) | – | (682) | – | (682) |
| Profit for the year | – | – | – | – | – | – | – | – | 1,013,333 | 1,013,333 | 66,935 | 1,080,268 |
| Total income and expense for the year | – | – | 87,554 | 2,916 | – | – | – | 3,150 | 1,013,333 | 1,106,953 | 66,935 | 1,173,888 |
| Transfer of reserves (Note 29(a)): | | | | | | | | | | | | |
| – From accumulated losses to special capital reserve | – | – | – | – | – | – | 71,820 | – | (71,820) | – | – | – |
| – From special capital reserve to general reserve | – | – | – | – | – | 24,935 | (24,935) | – | – | – | – | – |
| Acquisition of additional interests of a subsidiary from a minority shareholder | – | – | – | – | – | – | – | – | – | – | (14,685) | (14,685) |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | (185,588) | (185,588) |
| **At 31 July 2008** | **141,620** | **6,974,701** | **464,780** | **16,694** | **1,200,000** | **504,136** | **46,885** | **41,978** | **(2,063,859)** | **7,326,935** | **199,813** | **7,526,748** |

# Consolidated Cash Flow Statement

Year ended 31 July 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **1,176,586** | 1,665,250 |
| Adjustments for: | | | |
| Finance costs | 9 | **104,078** | 150,125 |
| Gain on disposal of properties under development | 8 | **(439)** | — |
| Gain on disposal of an available-for-sale financial asset | 6 | **(82,124)** | — |
| Share of profits and losses of associates | | **(19,736)** | (1,041,340) |
| Loss on deemed disposal of interest in an associate | | **2,664** | 713 |
| Loss on disposal of investment properties | 8 | **2,920** | — |
| Fair value gain on investment properties | | **(721,604)** | (468,758) |
| Discount on acquisition of additional interest in an associate | | **(22,761)** | — |
| Depreciation | 8 | **38,277** | 60,195 |
| Amortisation of prepaid land lease payments | 8 | **1,027** | 1,028 |
| Gain on disposal of items of property, plant and equipment | 8 | **(446)** | (1,544) |
| Gain on disposal of subsidiaries | 7 | **(699,036)** | (2,431) |
| Impairment of goodwill | 8 | **1,716** | 2,289 |
| Decrease in fair value of equity investments at fair value through profit or loss | 8 | **54,012** | — |
| Loss on disposal of equity investments at fair value through profit or loss | 8 | **90** | — |
| Provision for tax indemnity | | **464,632** | — |
| Reversal of impairment of available-for-sale debt investments | 8 | **—** | (2,969) |
| Equity-settled share option expense | 8 | **—** | 6,572 |
| Interest income | 6 | **(33,179)** | (40,550) |
| Return of capital from an unlisted available-for-sale equity investment | 6 | **—** | (1,914) |
| Dividend income from unlisted available-for-sale equity investments | 6 | **(611)** | (984) |
| | | **266,066** | 325,682 |
| Increase in completed properties for sale | | **—** | (1,500) |
| Decrease/(increase) in inventories | | **1,369** | (475) |
| Decrease/(increase) in debtors and deposits | | **23,908** | (24,801) |
| Increase in creditors, deposits received and accruals | | **17,399** | 6,646 |
| Cash generated from operations | | **308,742** | 305,552 |

# Consolidated Cash Flow Statement

Year ended 31 July 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Cash generated from operations | | **308,742** | 305,552 |
| Interest received | | **33,179** | 40,550 |
| Interest paid on bank and other borrowings | | **(107,096)** | (142,660) |
| Hong Kong profits tax paid | | **(16,391)** | (8,252) |
| Overseas taxes paid | | **(16,070)** | (3,937) |
| Net cash inflow from operating activities | | **202,364** | 191,253 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(26,469)** | (26,752) |
| Additions to investment properties | | **(4,796)** | (21,142) |
| Additions to properties under development | | **(309,063)** | (45,745) |
| Deposits paid for acquisition of properties under development | | **(18,800)** | (30,300) |
| Acquisition of equity investments at fair value through profit or loss | | **(105,049)** | — |
| Acquisition of further interests of an associate | | **(414,994)** | — |
| Acquisition of available-for-sale financial asset | | **—** | (18,486) |
| Acquisition of associates | | **—** | (2,039) |
| Acquisition of further interests of a subsidiary from minority shareholders | | **(55,800)** | (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 | | **13,469** | 3,209 |
| Proceeds from disposal of investment properties | | **2,080** | — |
| Proceeds from disposal of property under development | | **659** | — |
| Proceeds from disposal of equity investments at fair value through profit or loss | | **4,959** | — |
| Proceeds from disposal of available-for-sale financial assets | | **100,610** | — |
| Disposal of subsidiaries | 32 | **822,488** | 3,500 |
| Advances to associates | | **(71,686)** | (132,494) |
| Repayment from investee companies | | **348,602** | 49,773 |
| Return of capital from unlisted available-for-sale equity investment | | **—** | 1,914 |
| Dividends received from unlisted available-for-sale equity investments | | **611** | 984 |
| Dividends received from associates | | **31,000** | 600,083 |
| Decrease in pledged bank balances and time deposits | | **1,017** | 514 |
| Net cash inflow from investing activities | | **318,838** | 157,356 |

# Consolidated Cash Flow Statement

Year ended 31 July 2008

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| New bank borrowings | **151,500** | — |
| Proceeds from issue of shares | — | 509,760 |
| Advance from a minority shareholder | — | 450 |
| Repayment of bank and other borrowings | **(381,931)** | (199,083) |
| Bank refinancing charges | **(1,791)** | (828) |
| Repayment to minority shareholders | — | (35,000) |
| Share issue expenses | — | (5,624) |
| Payment of contingent liabilities to bondholders | — | (55,020) |
| Net cash inflow/(outflow) from financing activities | **(232,222)** | 214,655 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | **288,980** | 563,264 |
| Cash and cash equivalents at beginning of year | **965,086** | 401,724 |
| Effect of foreign exchange rate changes, net | **1,282** | 98 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | **1,255,348** | 965,086 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | **146,655** | 132,953 |
| Non-pledged time deposits with original maturity of less than three months when acquired | **1,108,693** | 832,133 |
| | **1,255,348** | 965,086 |

# Balance Sheet

31 July 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **14,181** | 21,838 |
| Investment properties | 17 | **3,564,400** | 3,118,200 |
| Interests in subsidiaries | 20 | **2,536,002** | 2,878,928 |
| Interests in associates | 21 | **391,900** | (1,622) |
| Available-for-sale financial assets | 22 | **101** | 14,996 |
| Pledged bank balances and time deposits | 23 | **94,121** | 95,138 |
| Total non-current assets | | **6,600,705** | 6,127,478 |
| CURRENT ASSETS | | | |
| Debtors and deposits | 26(a) | **54,764** | 67,686 |
| Cash and cash equivalents | 23 | **1,097,471** | 750,104 |
| Total current assets | | **1,152,235** | 817,790 |
| CURRENT LIABILITIES | | | |
| Creditors, deposits received and accruals | | **75,309** | 68,120 |
| Tax payable | | **22,508** | — |
| Interest-bearing bank and other borrowings | 27 | **120,000** | 118,000 |
| Total current liabilities | | **217,817** | 186,120 |
| NET CURRENT ASSETS | | **934,418** | 631,670 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **7,535,123** | 6,759,148 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 27 | **(1,474,600)** | (1,660,600) |
| Deferred tax | 28 | **(549,404)** | (500,819) |
| Provision for tax indemnity | 34(c) | **(464,632)** | — |
| Long term rental deposits received | | **(31,514)** | (32,111) |
| Total non-current liabilities | | **(2,520,150)** | (2,193,530) |
| | | **5,014,973** | 4,565,618 |
| EQUITY | | | |
| Issued capital | 29 | **141,620** | 141,620 |
| Reserves | 31(b) | **4,873,353** | 4,423,998 |
| | | **5,014,973** | 4,565,618 |

**Lam Kin Ngok, Peter**
*Director*

**Lau Shu Yan, Julius**
*Director*

# Notes to Financial Statements

31 July 2008

## 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 Company and its subsidiaries (collectively referred to as the "Group") and associates were involved in the following principal activities:

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

Details of the principal activities of the principal subsidiaries and associates are set out in notes 20 and 21 to the financial statements, respectively.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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, equity investments at fair value through profit or loss and certain available-for-sale financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.



**Basis of consolidation**

The consolidated financial statements include the financial statements of the Group and its subsidiaries for the year ended 31 July 2008. 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 consolidation and book value of the share of the net assets acquired is recognised as goodwill.

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

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material impact on these financial statements.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKAS 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC)-Int 11 | HKFRS 2 - Group and Treasury Share Transactions |

The principal effects of adopting these new and revised HKFRSs are as follows:

**(a) Amendment to HKAS 1 Presentation of Financial Statements – Capital disclosures**

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 37 to the financial statements.

**(b) Amendments to HKAS 39 and HKFRS 7 Reclassification of Financial Assets**

HKAS 39 and HKFRS 7 (Amendments) permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendments also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

**(c) HKFRS 7 Financial Instruments: Disclosures**

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

# Notes to Financial Statements

31 July 2008

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

### (d) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 August 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

### (e) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions

This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on 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 that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statement[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[5] |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 2 Amendment | Share-based Payment[1] |
| HKFRS 3 (Revised) | Business Combinations[5] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC)-Int 12 | Service Concession Arrangements[3] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[2] |
| HK(IFRIC)-Int 14 | HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3] |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate[1] |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation[4] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2008
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods beginning on or after 1 July 2009



HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in a single statement, or in two linked statements. The Group is evaluating whether it will have one or more statements.

# Notes to Financial Statements

31 July 2008

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

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting treatment for attributing losses to the non controlling interest as well as the loss of control of a subsidiary. The changes introduced by the revisions to HKAS 27 will be applied by the Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Group with minority interests.

HKAS 32 and HKAS 1 (Amendments) are relevant to entities that have issued financial instruments that are (a) puttable financial instruments, and (b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. As the Group currently has no such arrangements, the amendments are unlikely to have any financial impact on the Group.

HKFRS 2 (Amendments) restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Group has not entered into any share-based payment schemes with vesting conditions attached, the amendment is unlikely to have any financial impact on the Group.



HKFRS 3 has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by the revisions to HKFRS 3 will be applied by the Group prospectively as required under the revised standards and will affect future acquisitions and transactions of the Group.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of HKAS 11 Construction Contracts or HKAS 18 Revenue and when revenue from the construction should be recognised.



An agreement for the construction of real estate meets the definition of a construction contract when the buyer is able to specify:

- the major structural elements of the design of the real estate before construction begins; and/or

- major structural changes once construction is in progress (whether it exercises that ability or not).

In contrast, if construction could take place independently of the agreement and buyers have only limited ability to influence the design of the real estate (e.g. to select a design from a range of options specified by the entity, or to specify only minor variations to the basic design), the agreement will be for the sale of goods or the rendering of services and within the scope of HKAS 18.

# Notes to Financial Statements

31 July 2008

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

Where the agreement falls within the scope of HKAS 18, and the entity is responsible only for assembling materials supplied by others (i.e. it has no inventory risk for the construction materials), the agreement is an agreement for the rendering of services. In such circumstances, revenue is recognised by reference to the stage of completion of the transaction using the percentage of completion method. An agreement for the construction of real estate will be an agreement for the sale of goods under HKAS 18 if it involves the provision of services together with construction materials. Revenue can only be recognised when the entity has transferred to the buyer control and the significant risks and rewards of ownership of the goods. As the agreements for construction of real estate entered by the Group are within the scope HKAS 18, the interpretation is unlikely to have any impact on the Group's results of operations and financial position.

HK(IFRIC)-Int 16 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with HKAS 39. As the Group currently has no hedging instruments, HK(IFRIC)-Int 16 is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Associates (continued)**

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 impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. 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.

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 impairment losses.

**Excess over the cost of acquisition of interest in subsidiaries and associates**

Any excess of the Group's interest in the net asset value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates, after reassessment, is recognised immediately in the income statement.



**Goodwill**

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

# Notes to Financial Statements

31 July 2008

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill (continued)**

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

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.

**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 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.

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, but 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties**

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

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

(e) 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 (c) or (d); or

(f) 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.



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.

# Notes to Financial Statements

31 July 2008

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Residual values, useful lives and the depreciation methods 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.



**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.

Once the construction or development of these properties are completed, these properties are reclassified to the appropriate assets categories.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Completed properties for sale**

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

**Investments and other financial assets**

The Group's financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

# Notes to Financial Statements

31 July 2008

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets (continued)**

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. 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. 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.



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 other valuation models.

## 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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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 2008

## 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. A provision for impairment is made for available-for-sale financial assets when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial liabilities including trade and other 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. The related interest expense is recognised within "finance costs" in the income statement.

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.



**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 that are readily convertible into known amounts of cash, and 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 2008

## 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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

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 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.

**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.

# Notes to Financial Statements

31 July 2008

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

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



**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 30 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.

# Notes to Financial Statements

31 July 2008

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

*Share-based payment transactions (continued)*

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.

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.

*Retirement benefits*

The Group operates defined contribution Mandatory Provident Fund retirement benefits 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.

# Notes to Financial Statements

31 July 2008

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

*Retirement benefits (continued)*

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Judgements**

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

*Impairment of assets*

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



*Income tax*

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

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

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

**Estimation uncertainty**

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

*Estimation of fair value of investment properties and available-for-sale 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 valuations; (ii) current prices in an active market for properties of a different nature, condition or location by reference to available market information; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows. The carrying amount at fair value of investment properties as at 31 July 2008 was HK$5,336,000,000 (2007: HK$4,614,600,000) and the available-for-sale financial assets as at 31 July 2008 was HK$437,042,000 (2007: HK$708,872,000).

*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, which is included interests in associates as at 31 July 2008 was HK$129,488,000. The goodwill arising on the acquisition of subsidiaries of HK$152,700,000 and an associate of HK$982,000 as at 31 July 2007 was classified as a separate item in the consolidated balance sheet and was included in interests in associates respectively.

# Notes to Financial Statements

31 July 2008

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

**Estimation uncertainty (continued)**

*Provision for tax indemnity*

A provision for tax indemnity was recognised in the consolidated financial statements in respect of a tax indemnity given by the Group to Lai Fung Holding Limited as detailed in note 34(c). Taking into account the prevailing market situation and the development plan and status of individual property development project as included in the Property Interests (as defined in note 34(c)), the directors of the Company considered that it is probable an amount of HK$464,632,000 under tax indemnity given by the Company to Lai Fung Holdings Limited would be crystallized. Accordingly, a provision for tax indemnity of the same amount was recognized in the financial statements. If there is any change in the market situation and the development plan and status of individual property development project, the amount of provision for tax indemnity made would be different from that provided for in the consolidated financial statements.

## 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 for sale purpose and the sale of properties;

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

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

(d) the "others" segment mainly 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.

## 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 2008 and 2007:

| | Property development and sales | | Property investment | | Hotel and restaurant operations | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | 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 | 659 | — | 333,450 | 299,886 | 469,979 | 576,796 | 22,418 | 32,224 | — | — | 826,506 | 908,906 |
| Intersegment sales | — | — | 8,259 | 7,040 | — | — | 32,235 | 28,861 | (40,494) | (35,901) | — | — |
| Other revenue | 607 | — | 523 | 1,939 | 634 | 503 | 7 | 116 | — | — | 1,771 | 2,558 |
| Total | 1,266 | — | 342,232 | 308,865 | 470,613 | 577,299 | 54,660 | 61,201 | (40,494) | (35,901) | 828,277 | 911,464 |
| Segment results | 178 | 2,336 | 973,709 | 697,285 | 825,767 | 147,731 | 4,244 | 12,091 | — | — | 1,803,898 | 859,443 |
| Interest income and unallocated gains | | | | | | | | | | | 123,241 | 61,372 |
| Unallocated expenses | | | | | | | | | | | (221,676) | (146,067) |
| Provision for tax indemnity | | | | | | | | | | | (464,632) | — |
| Profit from operating activities | | | | | | | | | | | 1,240,831 | 774,748 |
| Finance costs | | | | | | | | | | | (104,078) | (150,125) |
| Share of profits and losses of associates | 162 | 3,866 | (309) | 11,269 | (2,185) | 3,648 | — | — | — | — | (2,332) | 18,783 |
| Share of profits and losses of associates - unallocated | | | | | | | | | | | 22,068 | 1,022,557 |
| Discount on acquisition of additional interests in an associate | | | | | | | | | | | 22,761 | — |
| Loss on deemed disposal of interest in an associate | | | | | | | | | | | (2,664) | (713) |
| Profit before tax | | | | | | | | | | | 1,176,586 | 1,665,250 |
| Tax | | | | | | | | | | | (96,318) | (118,410) |
| Profit for the year | | | | | | | | | | | 1,080,268 | 1,546,840 |

# Notes to Financial Statements

31 July 2008

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

| | Property development and sales | | Property investment | | Hotel and restaurant operations | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | 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 | 478,952 | 112,463 | 5,354,020 | 4,661,643 | 458,285 | 1,592,156 | 40,363 | 32,964 | 6,331,620 | 6,399,226 |
| Interests in associates | 218,171 | 178,176 | 525,229 | — | — | — | — | — | 743,400 | 178,176 |
| Interests in associates – unallocated | | | | | | | | | 2,026,970 | 1,556,387 |
| Unallocated assets | | | | | | | | | 1,795,133 | 1,708,777 |
| Total assets | | | | | | | | | 10,897,123 | 9,842,566 |
| Segment liabilities | 6,599 | 103 | 89,315 | 91,390 | 29,183 | 56,033 | 10,104 | 6,808 | 135,201 | 154,334 |
| Interest-bearing bank and other borrowings | | | | | | | | | 1,874,878 | 2,345,309 |
| Other unallocated liabilities | | | | | | | | | 1,360,296 | 789,790 |
| Total liabilities | | | | | | | | | 3,370,375 | 3,289,433 |
| Other segment information: | | | | | | | | | | |
| Amortisation of prepaid land lease payments | — | — | — | — | 1,027 | 1,028 | — | — | 1,027 | 1,028 |
| Depreciation | — | — | 28 | 26 | 27,802 | 49,791 | 213 | 162 | 28,043 | 49,979 |
| Unallocated amounts | | | | | | | | | 10,234 | 10,216 |
| | | | | | | | | | 38,277 | 60,195 |
| Impairment of goodwill | — | — | — | — | 1,716 | 2,289 | — | — | 1,716 | 2,289 |
| Gain on disposal of subsidiaries | — | (2,450) | — | — | (699,036) | — | — | 19 | (699,036) | (2,431) |
| Fair value gain on investment properties | — | — | (721,604) | (468,758) | — | — | — | — | (721,604) | (468,758) |
| Capital expenditure | 363,416 | 76,045 | 4,796 | 21,142 | 24,498 | 12,328 | 798 | 50 | 393,508 | 109,565 |
| Unallocated amounts | | | | | | | | | 1,173 | 14,374 |
| | | | | | | | | | 394,681 | 123,939 |

## 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 2008 and 2007:

| | Hong Kong | | Vietnam | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | **556,263** | 698,067 | **270,243** | 210,839 | **826,506** | 908,906 |
| Other revenue | **1,771** | 2,558 | **—** | — | **1,771** | 2,558 |
| Total | **558,034** | 700,625 | **270,243** | 210,839 | **828,277** | 911,464 |
| Other segment information: | | | | | | |
| Segment assets | **5,885,493** | 6,009,581 | **446,127** | 389,645 | **6,331,620** | 6,399,226 |
| Capital expenditure | **380,145** | 118,945 | **14,536** | 4,994 | **394,681** | 123,939 |

## 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

| | | Group | |
|---|---|---|---|
| | | **2008** | 2007 |
| | Notes | **HK$'000** | HK$'000 |
| Rental income and building management fee from related companies | (i) | **6,444** | 4,975 |
| Rental income and building management fee from eSun and its subsidiaries (collectively the "eSun Group") | (ii) | **5,751** | 2,617 |
| Rental income and building management fee from an associate of eSun | (ii) | **—** | 1,523 |
| Marketing service income from a related company | (i) | **2,120** | — |

*Notes:*



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

(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.

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **18,984** | 16,910 |
| Employee share option benefits | **—** | 6,572 |
| Post-employment benefits | **294** | 252 |
| Total compensation paid to key management personnel | **19,278** | 23,734 |

## 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| **Turnover** | | |
| Property rentals | **331,370** | 300,107 |
| Hotel, restaurant and other operations | **492,397** | 608,799 |
| Sales of properties | **2,739** | — |
| | **826,506** | 908,906 |
| **Other revenue** | | |
| Interest income from bank deposits | **26,512** | 19,720 |
| Other interest income | **6,667** | 20,830 |
| Gain on disposal of an available-for-sale financial asset | **82,124** | — |
| Dividend income from unlisted available-for-sale equity investments | **611** | 984 |
| Return of capital from an unlisted available-for-sale equity investment | **—** | 1,914 |
| Others | **9,098** | 20,482 |
| | **125,012** | 63,930 |

# Notes to Financial Statements

31 July 2008

## 7. GAIN ON DISPOSAL OF SUBSIDIARIES

On 7 November 2007, the Company and Surearn Profits Limited (the "Surearn"), a wholly-owned subsidiary of the Group, entered into agreement with CCB International Group Holdings Limited ("CCB International") pursuant to which Surearn agreed to dispose of 16.57% interest in Diamond String Limited ("Diamond String") and the Company agreed to assign the related shareholder loan with interest accrued thereon owed by Diamond String to the Company to CCB International for a consideration of approximately HK$567 million, subject to adjustment with reference to the net assets value of Diamond String as at 31 March 2008. The major asset of Diamond String is the hotel property of The Ritz-Carlton Hong Kong situated at 3 Connaught Road Central, Hong Kong. The transaction was completed in December 2007. Further details of the transaction are set out in the Company's circular dated 29 November 2007.

On 30 January 2008, the Company and Surearn entered into another agreement with CCB International, pursuant to which Surearn agreed to sell a further 10% interest in Diamond String and the Company agreed to assign the related shareholder loan with interest accrued thereon owed by Diamond String to the Company to CCB International for a total consideration of approximately HK$417 million, subject to adjustment with reference to the net assets value of Diamond String as at 31 March 2008. After taking into account of the net assets value of Diamond String as at 31 March 2008, the considerations for the disposals of 16.57% and 10% interest in Diamond String are revised to approximately to HK$575.5 million and HK$422.3 million, respectively. The aggregate gain on disposal of 16.57% and 10% interests in Diamond String is approximately HK$699 million.



The disposal of the 10% interest in Diamond String constituted a major and connected transaction for the Company and was subject to, inter alia, independent shareholders' approval requirements of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). A resolution approving the disposal transaction was duly passed at an extraordinary general meeting of the Company held on 18 March 2008.

The disposal of the 10% interest in Diamond String was completed on 31 March 2008. Upon completion of the transaction, the Group and CCB International each holds 50% interest in Diamond String. Diamond String ceased to be a subsidiary of the Group and resulted in the deconsolidation of the assets and liabilities of Diamond String from the Group's consolidated financial statements. The remaining 50% interest in Diamond String retained by the Group after the completion of the transaction is equity accounted for as the Group's interest in an associate in the Group's consolidated financial statements as at 31 July 2008.

## 8. PROFIT FROM OPERATING ACTIVITIES

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

| | | Group | |
|---|---|---|---|
| | | **2008** | 2007 |
| | Notes | **HK$'000** | HK$'000 |
| Depreciation# | 15 | **38,277** | 60,195 |
| Amortisation of prepaid land lease payments* | 16 | **1,027** | 1,028 |
| Staff costs (including directors' remuneration - note 10): | | | |
| Wages and salaries | | **173,947** | 210,251 |
| Pension scheme contributions | | **4,894** | 7,222 |
| | | **178,841** | 217,473 |
| Auditors' remuneration | | **2,863** | 2,380 |
| Impairment of goodwill* | 19 | **1,716** | 2,289 |
| Gain on disposal of items of property, plant and equipment* | | **(446)** | (1,544) |
| Gain on disposal of properties under development | | **(439)** | — |
| Loss on disposal of investment properties | | **2,920** | — |
| Decrease in fair value of equity investments at fair value through profit or loss* | | **54,012** | — |
| Loss on disposal of equity investments at fair value through profit or loss* | | **90** | — |
| Reversal of impairment of available-for-sale debt investments* | | **—** | (2,969) |
| Equity-settled share option expense | | **—** | 6,572 |
| Minimum lease payments under operating leases in respect of leasehold buildings | | **5,911** | 5,230 |
| Rental income | | **(331,370)** | (300,107) |
| Less: Outgoings | | **51,962** | 50,473 |
| Net rental income | | **(279,408)** | (249,634) |
| Foreign exchange losses, net | | **797** | 499 |

\# *Depreciation charge of HK$29,912,000 (2007: HK$51,779,000) 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 2008

## 9. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Interest on bank and other borrowings wholly repayable within five years | **102,898** | 140,445 |
| Bank financing charges | **6,964** | 9,680 |
| | **109,862** | 150,125 |
| Less: Amount capitalised in properties under development (note 18) | **(5,784)** | — |
| | **104,078** | 150,125 |

## 10. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Fees | **382** | 320 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **18,602** | 16,590 |
| Employee share option benefits | **—** | 6,572 |
| Pension scheme contributions | **294** | 252 |
| | **18,896** | 23,414 |
| | **19,278** | 23,734 |



During the year ended 31 July 2007, 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 30 to the financial statements. The fair value of such options was determined as at the date of grant and the amount recognised in the income statement for the that year was included in the above directors' remuneration disclosures.

## 10. DIRECTORS' REMUNERATION (continued)

### (a) Independent non-executive directors

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

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Sir David Tang* | 183 | 200 |
| Lam Bing Kwan | 90 | 60 |
| Leung Shu Yin, William | 90 | 60 |
| Wan Yee Hwa, Edward# | 19 | — |
| | 382 | 320 |

* *Sir David Tang resigned as an independent non-executive director of the Company on 16 June 2008.*

\# *Wan Yee Hwa, Edward was appointed as an independent non-executive director of the Company on 16 June 2008.*

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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

| | Salaries, allowances and benefits in kind<br>HK$'000 | Employee share option benefits<br>HK$'000 | Pension scheme contributions<br>HK$'000 | Total emoluments<br>HK$'000 |
|---|---|---|---|---|
| **2008** | | | | |
| Executive directors: | | | | |
| Lam Kin Ngok, Peter | 10,826 | — | 12 | 10,838 |
| Lau Shu Yan, Julius | 3,595 | — | 153 | 3,748 |
| Tam Kin Man, Kraven | 2,545 | — | 123 | 2,668 |
| Cheung Wing Sum, Ambrose | — | — | — | — |
| Cheung Sum, Sam | 1,636 | — | 6 | 1,642 |
| Leung Churk Yin, Jeanny | — | — | — | — |
| | 18,602 | — | 294 | 18,896 |
| Non-executive directors: | | | | |
| Lam Kin Ming | — | — | — | — |
| U Po Chu | — | — | — | — |
| | — | — | — | — |
| | 18,602 | — | 294 | 18,896 |

# Notes to Financial Statements

31 July 2008

## 10. DIRECTORS' REMUNERATION (continued)

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

| | Salaries, allowances and benefits in kind HK$'000 | Employee share option benefits HK$'000 | Pension scheme contributions HK$'000 | Total emoluments HK$'000 |
|---|---|---|---|---|
| 2007 | | | | |
| 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 |
| | 16,590 | 6,572 | 252 | 23,414 |
| Non-executive directors: | | | | |
| Lam Kin Ming | — | — | — | — |
| U Po Chu | — | — | — | — |
| | — | — | — | — |
| | 16,590 | 6,572 | 252 | 23,414 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

## 11. EMPLOYEES' REMUNERATION

The five highest paid employees during the year included four (2007: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining one (2007: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **1,641** | 6,049 |
| Pension scheme contributions | **79** | 144 |
| | **1,720** | 6,193 |

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

| | Number of employees | |
|---|---|---|
| | **2008** | 2007 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$2,500,001 to HK$3,000,000 | **—** | — |
| HK$4,000,001 to HK$4,500,000 | **—** | 1 |
| | **1** | 2 |

# Notes to Financial Statements

31 July 2008

## 12. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Current tax | | |
| Hong Kong | **8,259** | 8,888 |
| Overseas | **13,928** | 7,214 |
| | **22,187** | 16,102 |
| Deferred tax | | |
| Current year (note 28) | **99,102** | 102,872 |
| Change in profits tax rate | **(41,551)** | — |
| | **57,551** | 102,872 |
| Prior years' under/(over) provision - Hong Kong | **16,580** | (564) |
| Tax charge for the year | **96,318** | 118,410 |

# Notes to Financial Statements

31 July 2008

**12. TAX (continued)**

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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Profit before tax | **1,176,586** | 1,665,250 |
| Share of profits and losses of associates | **(19,736)** | (1,041,340) |
| Profit before tax attributable to the Company and its subsidiaries | **1,156,850** | 623,910 |
| Tax at the statutory tax rate of 16.5% (2007: 17.5%) | **190,880** | 109,184 |
| Higher tax rate for other countries | **2,331** | 879 |
| Adjustments in respect of current tax of previous periods | **16,580** | (564) |
| Income not subject to tax | **(139,622)** | (7,454) |
| Expenses not deductible for tax purposes | **85,556** | 16,013 |
| Tax losses utilised from previous periods | **(539)** | (547) |
| Tax losses not recognised | **11,290** | 899 |
| Reversal of recognised temporary differences | **(28,607)** | — |
| Effect of change in tax rate on opening deferred tax | **(41,551)** | — |
| Tax charge for the year | **96,318** | 118,410 |

# Notes to Financial Statements

31 July 2008

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

The consolidated profit attributable to equity holders of the Company for the year ended 31 July 2008 includes a profit of HK$449,355,000 (2007: HK$1,584,409,000) which has been dealt with in the financial statements of the Company (note 31(b)).

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of HK$1,013,333,000 (2007: HK$1,495,091,000) and the weighted average number of 14,162,042,000 (2007: 13,700,388,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 July 2008 is based on the adjusted profit attributable to equity holders of the Company for the year of HK$1,013,324,000 (2007: HK$1,487,136,000) and the weighted average number of 14,162,042,000 (2007: 13,700,388,000) 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$1,013,333,000 (2007: HK$1,495,091,000) less the dilution in the results of an associate, eSun, attributable to the Group of HK$9,000 (2007: HK$7,955,000) arising from the deemed exercise of those eSun's share options with dilutive effect being outstanding during the year.



All share options of the Company outstanding during the years 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 2008.

# Notes to Financial Statements

31 July 2008

## 15. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Notes | Hotel properties HK$'000 | Leasehold buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Computers HK$'000 | Motor vessels HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| At 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 and 1 August 2007 | | 1,546,274 | 34,303 | 74,232 | 232,305 | 22,463 | 14,280 | 33,786 | 1,957,643 |
| Additions | | — | — | 7,236 | 14,161 | 437 | 4,532 | 103 | 26,469 |
| Disposals/write-off | | — | — | (39,206) | (118,598) | (3,393) | (7,865) | — | (169,062) |
| Transfer to properties under development | | (1,189,239) | — | — | — | — | — | — | (1,189,239) |
| **At 31 July 2008** | | **357,035** | **34,303** | **42,262** | **127,868** | **19,507** | **10,947** | **33,889** | **625,811** |
| Accumulated depreciation and impairment: | | | | | | | | | |
| At 1 August 2006 | | 359,679 | 8,019 | 46,948 | 200,397 | 16,497 | 10,434 | 32,931 | 674,905 |
| Depreciation provided for the year | 8 | 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 and 1 August 2007 | | 389,766 | 8,702 | 56,925 | 210,088 | 16,848 | 11,626 | 33,175 | 727,130 |
| Depreciation provided for the year | 8 | 19,366 | 683 | 7,070 | 7,173 | 2,362 | 1,374 | 249 | 38,277 |
| Disposals/write-off | | — | — | (36,764) | (109,103) | (3,409) | (6,763) | — | (156,039) |
| Transfer to properties under development | | (319,332) | — | — | — | — | — | — | (319,332) |
| **At 31 July 2008** | | **89,800** | **9,385** | **27,231** | **108,158** | **15,801** | **6,237** | **33,424** | **290,036** |
| Net carrying amount: | | | | | | | | | |
| **At 31 July 2008** | | **267,235** | **24,918** | **15,031** | **19,710** | **3,706** | **4,710** | **465** | **335,775** |
| At 31 July 2007 | | 1,156,508 | 25,601 | 17,307 | 22,217 | 5,615 | 2,654 | 611 | 1,230,513 |

# Notes to Financial Statements

31 July 2008

**15. PROPERTY, PLANT AND EQUIPMENT (continued)**

At 31 July 2008, the Group's hotel properties with a total carrying amount of HK$267,235,000 (2007: HK$1,156,508,000) were pledged to banks to secure banking facilities granted to the Group (note 27).

The Group's hotel properties and leasehold buildings as at 31 July 2008 included above are held under the following lease terms:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At cost: | | |
| Medium-term leases | | |
| Hong Kong | **3,550** | 1,192,790 |
| Elsewhere | **357,035** | 357,034 |
| Long leases | | |
| Hong Kong | **30,753** | 30,753 |
| | **391,338** | 1,580,577 |

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

**Company**

| | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Computers HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 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) |
| At 31 July 2007 and 1 August 2007 | 25,705 | 17,502 | 20,149 | 977 | 64,333 |
| Additions | 48 | 549 | — | 112 | 709 |
| Disposals/write-off | — | (10) | (2,618) | (166) | (2,794) |
| **At 31 July 2008** | **25,753** | **18,041** | **17,531** | **923** | **62,248** |
| Accumulated depreciation: | | | | | |
| At 1 August 2006 | 10,313 | 16,205 | 14,650 | 861 | 42,029 |
| Depreciation provided for the year | 4,400 | 1,619 | 2,251 | 146 | 8,416 |
| Disposals/write-off | (107) | (5,321) | (2,248) | (274) | (7,950) |
| At 31 July 2007 and 1 August 2007 | 14,606 | 12,503 | 14,653 | 733 | 42,495 |
| Depreciation provided for the year | 4,388 | 1,605 | 2,233 | 139 | 8,365 |
| Disposals/write-off | — | (10) | (2,617) | (166) | (2,793) |
| **At 31 July 2008** | **18,994** | **14,098** | **14,269** | **706** | **48,067** |
| Net carrying amount: | | | | | |
| **At 31 July 2008** | **6,759** | **3,943** | **3,262** | **217** | **14,181** |
| At 31 July 2007 | 11,099 | 4,999 | 5,496 | 244 | 21,838 |

# Notes to Financial Statements

31 July 2008

## 16. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Cost: | | |
| At beginning and end of year | **35,960** | 35,960 |
| Accumulated amortisation: | | |
| At beginning of year | **5,812** | 4,784 |
| Amortisation provided for the year – note 8 | **1,027** | 1,028 |
| At end of year | **6,839** | 5,812 |
| Net carrying amount: | | |
| At end of year | **29,121** | 30,148 |

Leasehold land of the Group as at 31 July 2008 is held under medium-term lease and is situated outside Hong Kong.

At 31 July 2008, the Group's prepaid land lease payments with a carrying amount of HK$29,121,000 (2007: HK$30,148,000) were pledged to bank to secure banking facilities granted to the Group (note 27).



## 17. INVESTMENT PROPERTIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Carrying amount at beginning of year | **4,614,600** | 4,124,700 | **3,118,200** | 2,797,500 |
| Additions, at cost | **4,796** | 21,142 | **4,579** | 6,491 |
| Disposal | **(5,000)** | — | **—** | — |
| Gain on revaluation | **721,604** | 468,758 | **441,621** | 314,209 |
| Carrying amount at end of year | **5,336,000** | 4,614,600 | **3,564,400** | 3,118,200 |

## 17. INVESTMENT PROPERTIES (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Long leases | **1,770,000** | 1,490,000 | **—** | — |
| Medium-term leases | **3,566,000** | 3,124,600 | **3,564,400** | 3,118,200 |
| | **5,336,000** | 4,614,600 | **3,564,400** | 3,118,200 |

At 31 July 2008, the investment properties were stated at their aggregate open market value of HK$5,336,000,000 (2007: HK$4,614,600,000), 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 35(a) to the financial statements.

Certain investment properties of the Group and the Company with carrying amounts of HK$5,328,000,000 (2007: HK$4,603,000,000) and HK$3,558,000,000 (2007: HK$3,113,000,000), respectively, were pledged to banks to secure banking facilities granted to the Group (note 27).



## 18. PROPERTIES UNDER DEVELOPMENT

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **106,942** | 61,197 |
| Transfer from property, plant and equipment | **869,907** | — |
| Additions | **339,052** | 45,745 |
| Interest and bank financing charges capitalised (note 9) | **5,784** | — |
| Disposals | **(220)** | — |
| Disposal of a subsidiary | **(869,907)** | — |
| At end of year | **451,558** | 106,942 |

# Notes to Financial Statements

31 July 2008

## 18. PROPERTIES UNDER DEVELOPMENT (continued)

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Long leases | **106,229** | 105,506 |
| Medium-term leases | **345,329** | 1,436 |
| | **451,558** | 106,942 |

As at 31 July 2008, the Group's properties under development with a total carrying amount of HK$344,113,000 were pledged to banks to secure banking facilities granted to the Group (note 27).

## 19. GOODWILL

| | Group HK$'000 |
|---|---|
| Cost: | |
| At 1 August 2006 | 8,583 |
| Arising from acquisition of minority interests of a subsidiary (Note a) | 150,984 |
| At 31 July 2007 and 1 August 2007 | 159,567 |
| Arising from acquisition of minority interests of a subsidiary (Note a) | 47,315 |
| Release upon disposal of interests in a subsidiary (Note b) | (68,811) |
| Transfer to interests in associates (Note b) | (129,488) |
| **At 31 July 2008** | **8,583** |
| Accumulated impairment: | |
| At 1 August 2006 | 4,578 |
| Impairment provided for the year – note 8 | 2,289 |
| At 31 July 2007 and 1 August 2007 | 6,867 |
| Impairment provided for the year - note 8 | 1,716 |
| **At 31 July 2008** | **8,583** |
| Net carrying amount: | |
| **At 31 July 2008** | **—** |
| At 31 July 2007 | 152,700 |

*Notes:*

(a) The amounts represented goodwill arising from acquisition of further interests in Diamond String, a then subsidiary of the Group, from minority shareholders of the subsidiary.

(b) The attributable amount of goodwill was released and included in the calculation of gain on disposal of a subsidiary upon the Group's disposal of 26.57% equity interest in Diamond String. The remaining amount of goodwill was transferred to interests in associates as Diamond String became an associate of the Group. The details of the disposal are set out in note 7 to the financial statements.

# Notes to Financial Statements

31 July 2008

## 20. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **167,421** | 1,167,416 |
| Amounts due from subsidiaries | **6,123,822** | 6,091,423 |
| Amounts due to subsidiaries | **(1,005,147)** | (1,608,661) |
| | **5,118,675** | 4,482,762 |
| Provision for impairment | **(2,750,094)** | (2,771,250) |
| | **2,536,002** | 2,878,928 |

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for an amount due from a subsidiary of HK$494,206,000 (2007: HK$493,081,000) as at 31 July 2008 which bears interest at prevailing market lending rate.

The provision for impairment in respect of the amount due from subsidiaries at the balance sheet date was determined on the basis of the amounts recoverable from the subsidiaries with reference to the fair value of the underlying assets held by the subsidiaries.

# Notes to Financial Statements

31 July 2008

## 20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 July 2008 are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share/registered and paid-up capital | Class of shares held | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Chains Caravelle Hotel Joint Venture Company Limited ("CCHJV") | Vietnam | US$23,175,577 | * | — | 26.01 ** | Hotel operations |
| Furama Hotel Enterprises Limited ("FHEL") | Hong Kong | HK$102,880,454 | Ordinary | — | 100.00 | Investment holding |
| Gilroy Company Limited | Hong Kong | HK$10,000 | Ordinary | 100.00 | — | Property investment |
| Glynhill Hotels and Resorts (Vietnam) Pte. Ltd. | Singapore/ Vietnam | S$2 | Ordinary | — | 100.00 | Provision of management and consultancy service to hotel owners |
| Goldmay Development Limited ("Goldmay") | Hong Kong | HK$2 | Ordinary | 100.00 | — | Property development |
| Kolot Property Services Limited | Hong Kong | HK$2 | Ordinary | 100.00 | — | Property management |
| Lai Sun Real Estate Agency Limited | Hong Kong | HK$2 | Ordinary | 100.00 | — | Property management and real estate agency |
| Milirich Investment Limited | Hong Kong | HK$2 | Ordinary | 100.00 | — | Property development |
| Oriental Style Limited | Hong Kong | HK$1 | Ordinary | — | 100.00 | Property development |
| Peakflow Profits Limited ("Peakflow") | British Virgin Islands/ Hong Kong | US$1 | Ordinary | 100.00 | — | Investment holding |
| Starmate Team Limited | British Virgin Islands | US$1 | Ordinary | 100.00 | — | Investment holding |
| Transformation International Limited# | British Virgin Islands/ Hong Kong | US$1 | Ordinary | 100.00 | — | Investment holding |

# Notes to Financial Statements

31 July 2008

## 20. INTERESTS IN SUBSIDIARIES (continued)

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

* *This subsidiary has registered rather than issued share capital.*

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

# *Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.*

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 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. The pledge was released during the year upon the repayment of such loan facility.

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

# Notes to Financial Statements

31 July 2008

## 21. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **—** | — | **907** | 907 |
| Share of net assets | **1,845,689** | 1,402,927 | **—** | — |
| Goodwill on acquisition | **129,488** | 982 | **—** | — |
| | **1,975,177** | 1,403,909 | **907** | 907 |
| Amounts due from associates | **976,152** | 541,204 | **596,751** | 203,223 |
| Amounts due to associates | **(15,681)** | (51,326) | **(11,503)** | (11,503) |
| | **2,935,648** | 1,893,787 | **586,155** | 192,627 |
| Provision for impairment | **(165,278)** | (159,224) | **(194,255)** | (194,249) |
| | **2,770,370** | 1,734,563 | **391,900** | (1,622) |
| Market value of listed shares at the balance sheet date | **760,927** | 1,613,147 | **—** | — |



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

The provision for impairment in respect of the amount due from associates at the balance sheet date was determined on the basis of the amounts recoverable from the associates with reference to the fair value of the underlying assets held by the associates.

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 2008.

# Notes to Financial Statements

31 July 2008

## 21. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates as at 31 July 2008 are as follows:

| Name | Business structure | Place of incorporation or registration/ operations | Class of shares held | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|---|
| Brilliant Pearl Limited ("Brilliant Pearl") # | Corporate | Hong Kong | Ordinary | 50.00 | Property development |
| Diamond String Limited | Corporate | Hong Kong | Ordinary | 50.00 | Property development |
| East Asia Entertainment Limited | Corporate | Hong Kong | Ordinary | 36.08 | Entertainment activity production |
| East Asia Satellite Television Holdings Limited | Corporate | British Virgin Island/ Hong Kong | Ordinary | 24.05 | Investment holding |
| East Asia - Televisão Por Satélite, Limitada | Corporate | Macau | Quota | 13.86 | Investment holding |
| eSun Holdings Limited | Corporate | Bermuda/ Hong Kong | Ordinary | 36.08 | Investment holding |
| Fortune Sign Venture Inc. ("Fortune Sign") | Corporate | British Virgin Islands/ Hong Kong | Ordinary | 50.00 | Investment holding |

## 21. INTERESTS IN ASSOCIATES (continued)

| Name | Business structure | Place of incorporation or registration/ operations | Class of shares held | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|---|
| Lucky Result Limited # | Corporate | British Virgin Islands/ Hong Kong | Ordinary | 50.00 | Investment holding |
| Media Asia Entertainment Group Limited | Corporate | Bermuda/ Hong Kong | Ordinary | 36.08 | Film production and distribution |

# *Not audited by Ernst & Young Hong Kong or other member firm of Ernst & Young global network.*

Shares of certain associates beneficially owned by the Group were also pledged to banks to secure the banking facilities granted to the associates.

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, Diamond String and the eSun Group 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 or unaudited management accounts of the 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 unaudited management accounts/audited financial statements:

| | **2008** HK$'000 | 2007 HK$'000 |
|---|---|---|
| Assets | **8,994,538** | 6,332,726 |
| Liabilities | **3,595,128** | 2,375,279 |
| Turnover | **327,707** | 378,634 |
| Profit | **278,662** | 2,850,330 |

# Notes to Financial Statements

31 July 2008

## 21. INTERESTS IN ASSOCIATES (continued)

**The eSun Group**

Included in the Group's interests in associates at 31 July 2008 is the Group's share of net assets of the eSun Group of HK$2,017,971,000 (2007: HK$1,541,681,000).

In December 2007, share options granted under a share option scheme of eSun were exercised to subscribe for 5,588,886 ordinary shares of HK$0.50 each of eSun at a subscription price of HK$4 per share and accordingly the Group's interests in eSun was diluted from 34.75% to 34.52%.

*Undertaking to subscribe rights shares of eSun and acquisition of further interest in eSun*

Pursuant to a joint announcement made by the Company and eSun on 7 March 2008, eSun announced that it proposed to raise approximately HK$1,034 million before expenses by way of a rights issue (the "Rights Issue") of not less than 413,577,388 rights shares and not more than 414,508,868 rights shares at the subscription price of HK$2.50 per rights share on the basis of one rights share for every two existing eSun shares. Pursuant to an irrevocable undertaking (the "Irrevocable Undertaking") entered into between the Company and eSun dated 5 March 2008, the Company irrevocably undertook to eSun that: (i) the eSun shares beneficially owned by the Group as at that date would remain so owned from that date up to the close of business on 25 April 2008, being record date of the Rights Issue; and (ii) it would, subject to fulfilment of certain conditions (including seeking the independent shareholders' approval of the Company), subscribe or procure subscription of its entitlement to 142,756,395 rights shares as would be provisionally allotted to it.



The subscription of the rights shares of eSun by the Group and the Irrevocable Undertaking constituted a discloseable and connected transaction for the Company and was subject to, inter alia, independent shareholders' approval requirements of the Company under the Listing Rules. A resolution for approving the subscription of the right shares of eSun by the Group and the Irrevocable Undertaking was duly passed at an extraordinary general meeting of the Company on 16 April 2008. Further details of the aforesaid transactions are set out in the Company's circular dated 28 March 2008.

The Company took up 142,765,395 rights shares. In addition, the Company acquired 12,160,000 cum rights shares with a pro-rata entitlement to 6,080,000 rights shares, 730,000 ex-rights shares and applied for, and was allotted, 365,000 excess rights shares, such shares totalling 19,335,000, being within the maximum number of 19,342,000 shares permitted under the approval granted by the independent shareholders at the Company's extraordinary general meeting held on 16 April 2008. The Group's interests in eSun was increased from 34.52% to 36.08%.

A cross holding position has been existing between eSun and the Company. As at 31 July 2008, the Group's interest in eSun was 36.08% (2007: 34.75%) and the eSun Group held in aggregate 36.72% (2007: 36.72%) in the issued share capital of the Company.

# Notes to Financial Statements



## 21. INTERESTS IN ASSOCIATES (continued)

**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 properties 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.

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Available-for-sale investments, at fair value: | | | | |
| Unlisted equity investments | **405,561** | 328,788 | **—** | — |
| Unlisted debt investments | **31,481** | 380,084 | **—** | 14,895 |
| | **437,042** | 708,872 | **—** | 14,895 |
| 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) |
| | **16,158** | 34,644 | **101** | 101 |
| | **453,200** | 743,516 | **101** | 14,996 |

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 2008, or with reference to the market value of the underlying properties held by the investee companies.

As at 31 July 2008, unlisted investments of the Group with the carrying amounts of HK$16,158,000 (2007: HK$34,644,000) 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.

# Notes to Financial Statements

31 July 2008

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

As at 31 July 2008, included in available-for-sale financial assets at fair value were equity and debt interests in Bayshore with an aggregate amount of HK$410,892,000 which had been pledged to banks to secure a syndicated loan facility granted to the investee company.

As at 31 July 2007, included in available-for-sale financial assets at fair value were the equity and debt interests in Bayshore with an aggregate amount of HK$673,570,000, which had been pledged to Grand Design Development Limited, another shareholder of Bayshore, to secure a loan facility granted to the Group which was fully repaid during the year.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **155,938** | 135,585 | **22,872** | 15,254 |
| Time deposits | **1,193,531** | 924,639 | **1,168,720** | 829,988 |
| | **1,349,469** | 1,060,224 | **1,191,592** | 845,242 |
| Less: Pledged balances for long term bank borrowings: | | | | |
| Bank balances | **(9,283)** | (2,632) | **(9,283)** | (2,632) |
| Time deposits | **(84,838)** | (92,506) | **(84,838)** | (92,506) |
| Pledged bank balances and time deposits | **(94,121)** | (95,138) | **(94,121)** | (95,138) |
| Cash and cash equivalents | **1,255,348** | 965,086 | **1,097,471** | 750,104 |



At the balance sheet date, cash and bank balances of the Group denominated in Vietnamese Dong ("VND") amounted to approximately HK$10,068,000 (2007: HK$5,847,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposits rates. Bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

## 24. 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.

## 25. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Listed equity investments in Hong Kong, at market value | **49,842** | — |

The above equity instruments as at 31 July 2008 were classified as held for trading.

## 26. 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.

# Notes to Financial Statements

31 July 2008

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

An aged analysis of the trade debtors, based on payment due date, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade debtors: | | | | |
| Less than 30 days past due | **6,869** | 22,318 | **1,583** | 1,414 |
| 31 - 60 days past due | **1,717** | 2,176 | **473** | 571 |
| 61 - 90 days past due | **681** | 841 | **132** | 345 |
| Over 90 days past due | **3,344** | 4,644 | **3,294** | 4,229 |
| | **12,611** | 29,979 | **5,482** | 6,559 |
| Other debtors and deposits | **102,398** | 131,233 | **49,282** | 61,127 |
| | **115,009** | 161,212 | **54,764** | 67,686 |
| Portion classified as non-current: | | | | |
| Deposit paid for acquisition of properties under development | **(18,800)** | (30,300) | **—** | — |
| Deposit paid for purchase of a further interest in a subsidiary from a minority shareholder | **—** | (6,200) | **—** | — |
| | **(18,800)** | (36,500) | **—** | — |
| Current portion | **96,209** | 124,712 | **54,764** | 67,686 |

Movements in provision for impairment of trade debtors are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 August | **702** | 1,227 | **611** | 611 |
| Impairment losses recognised | **590** | 5 | **590** | — |
| Disposal of a subsidiary | **(91)** | — | **—** | — |
| Impairment losses reversed | **—** | (530) | **—** | — |
| At 31 July | **1,201** | 702 | **1,201** | 611 |

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

Included in the above provision for impairment of trade debtors is a provision for individually impaired trade debtors. The individually impaired trade debtors related to customers that were in default in settlements and no portion of the receivables is expected to be recovered after taking into account the rental deposits held by the Group.

Debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and rental deposits are received by the Group in advance from its customers, accordingly, the balances are still considered fully recoverable. Other than rental deposits received, the Group does not hold any collateral or other credit enhancements over these balances.

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

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trade creditors: | | |
| Less than 30 days | **6,702** | 14,385 |
| 31 - 60 days | **28** | 3,106 |
| 61 - 90 days | **19** | 346 |
| Over 90 days | **113** | 510 |
| | **6,862** | 18,347 |
| Other creditors, deposits received and accruals | **169,966** | 137,987 |
| | **176,828** | 156,334 |

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

# Notes to Financial Statements

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## 27. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Effective annual interest rate (%) | Group 2008 HK$'000 | Group 2007 HK$'000 | Company 2008 HK$'000 | Company 2007 HK$'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Bank borrowings – secured | 2.62 - 6.82 | **152,175** | 386,314 | **120,000** | 118,000 |
| Other borrowings – secured | — | — | 25,856 | — | — |
| | | **152,175** | 412,170 | **120,000** | 118,000 |
| **Non-current** | | | | | |
| Bank borrowings – secured | 2.62 – 6.82 | **1,722,703** | 1,784,464 | **1,474,600** | 1,660,600 |
| Other borrowings – secured | — | — | 148,675 | — | — |
| | | **1,722,703** | 1,933,139 | **1,474,600** | 1,660,600 |
| | | **1,874,878** | 2,345,309 | **1,594,600** | 1,778,600 |
| Analysed into: | | | | | |
| Bank borrowings repayable: | | | | | |
| Within one year | | **152,175** | 386,314 | **120,000** | 118,000 |
| In the second year | | **1,509,349** | 152,175 | **1,474,600** | 120,000 |
| In the third to fifth years, inclusive | | **213,354** | 1,632,289 | — | 1,540,600 |
| | | **1,874,878** | 2,170,778 | **1,594,600** | 1,778,600 |
| Other borrowings repayable: | | | | | |
| Within one year | | — | 25,856 | — | — |
| In the second year | | — | 25,856 | — | — |
| In the third to fifth years, inclusive | | — | 122,819 | — | — |
| | | — | 174,531 | — | — |
| | | **1,874,878** | 2,345,309 | **1,594,600** | 1,778,600 |



The Group's bank borrowings as at 31 July 2008 are secured, inter alia, by:

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

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

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

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

## 28. DEFERRED TAX

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

**Group**

| | Revaluation of investment properties HK$'000 | Accelerated capital allowances HK$'000 | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 August 2006 | (556,072) | (87,666) | 17,052 | 1,586 | (625,100) |
| Deferred tax debited to the consolidated income statement during the year – note 12 | (68,307) | (19,105) | (12,718) | (2,742) | (102,872) |
| At 31 July 2007 and 1 August 2007 | (624,379) | (106,771) | 4,334 | (1,156) | (727,972) |
| Effect of change in tax rate | 35,679 | 6,109 | (237) | — | 41,551 |
| Deferred tax credited/(debited) to the consolidated income statement during the year – note 12 | (118,635) | 23,157 | (3,624) | — | (99,102) |
| **At 31 July 2008** | **(707,335)** | **(77,505)** | **473** | **(1,156)** | **(785,523)** |

The Group has tax losses arising in Hong Kong of approximately HK$1,032,960,000 (2007: HK$967,627,000) 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 2008

## 28. DEFERRED TAX (continued)

**Company**

| | Revaluation of investment properties HK$'000 | Accelerated capital allowances HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 August 2006 | (407,115) | (39,553) | 9,096 | (437,572) |
| Deferred tax debited to the income statement during the year | (56,122) | (1,090) | (6,035) | (63,247) |
| At 31 July 2007 and 1 August 2007 | (463,237) | (40,643) | 3,061 | (500,819) |
| Effect of change in tax rate | 26,471 | 2,322 | (175) | 28,618 |
| Deferred tax debited to the income statement during the year | (72,868) | (1,449) | (2,886) | (77,203) |
| **At 31 July 2008** | **(509,634)** | **(39,770)** | **—** | **(549,404)** |



At 31 July 2008, there was no significant unrecognised deferred tax liability (2007: 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 2008

## 29. SHARE CAPITAL

| | 2008 and 2007 Number of shares '000 | 2008 and 2007 Nominal value HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 (2007: HK$0.01) each | 16,000,000 | 160,000 |
| Preference shares of HK$1.00 each | 1,200,000 | 1,200,000 |
| | | 1,360,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 (2007: HK$0.01) each | 14,162,042 | 141,620 |

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

| | Number of shares in issue '000 | Issued share capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 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) |
| | 1,416,000 | (6,231,401) | 1,116,537 | (5,114,864) |
| At 31 July 2007, 1 August 2007 and 31 July 2008 | 14,162,042 | 141,620 | 6,974,701 | 7,116,321 |

# Notes to Financial Statements

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## 29. 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 Furama Hotel Enterprise Limited, 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.

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 in (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

## 29. SHARE CAPITAL (continued)

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

During the year ended 31 July 2008, an amount of HK$71,820,000, which represents the reversal of provision for impairment of the Company's interest in Peakflow, is transferred from accumulated losses to the special capital reserve of the Company. In prior year, an aggregate amount of HK$479,201,000, which comprised (i) the reversal of provision for impairment of the Company's interest in Peakflow, 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$24,935,000 (2007: HK$479,201,000) was then transferred from special capital reserve to 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 2008

## 30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives or 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 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 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 total number of shares in issue from time to 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 shall not exceed 10% of the total number of shares of the Company in issue as at the date of adopting the Share Option Scheme unless the Company seeks the approval of its shareholders in 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 to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Company's total number of shares in issue. Any further grant of share options representing in aggregate over 1% of the total number of the Company's shares in issue must be separately approved by the shareholders in general meeting of the Company.



Each grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, shall be subject to approval by the independent non-executive directors of the Company. Any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue or having an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, in the 12-month period up to and including the date of such grant must be approved by shareholders in general meeting of the Company.

The offer of a grant of share options shall be accepted within 28 days from the date of offer and acceptance shall be made with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant. The exercise period of the share options granted is determinable by the directors of the Company save that such period shall not be more than 10 years from the date of grant of the share options.

The exercise price of share options is determinable by the directors of the Company, but shall not be lower 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 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 five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

## 30. SHARE OPTION SCHEME (continued)

The following share options were granted during the year ended 31 July 2007 and vested on the same day and were outstanding under the Share Option Scheme during the years ended 31 July 2007 and 31 July 2008:

| Name or category of participant | Number of share options granted in 2007 and outstanding as at 31 July 2007 and 31 July 2008 | Date of grant of options | Exercise period of share options | Exercise price of share options* HK$ per share |
|---|---|---|---|---|
| **Director** | | | | |
| 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 case of rights or bonus issues, or other relevant 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 for the year ended 31 July 2007 was HK$6,572,000 which was recognised as share option expense in the consolidated income statement for the year ended 31 July 2007.

# Notes to Financial Statements

31 July 2008

## 30. SHARE OPTION SCHEME (continued)

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

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

The expected life of the 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 necessary be the actual outcome.

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

During the year, no options were granted, exercised, cancelled or lapsed in accordance with the terms of the Share Option Scheme. As at 31 July 2008 and the date of approval of these financial statements, the total number of 60,000,000 share options outstanding under the Share Option Scheme represented approximately 0.42% of the Company's shares in issue at those dates.

# Notes to Financial Statements

31 July 2008

## 31. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 to 45 of the financial statements.

### (b) Company

| | Notes | Share premium account HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | General reserve HK$'000 | Special capital reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 August 2006 | | 5,858,164 | — | 1,200,000 | — | — | (10,960,684) | (3,902,520) |
| Capital reduction | 29(a) | 626,561 | — | — | — | — | 5,619,000 | 6,245,561 |
| Issue of shares | 29(b) | 495,600 | — | — | — | — | — | 495,600 |
| Share issue expenses | 29(b) | (5,624) | — | — | — | — | — | (5,624) |
| Equity-settled share option arrangements | 30 | — | 6,572 | — | — | — | — | 6,572 |
| Profit for the year | | — | — | — | — | — | 1,584,409 | 1,584,409 |
| Transfer of reserves: | | | | | | | | |
| – From accumulated losses to special capital reserve | 29(a) | — | — | — | — | 479,201 | (479,201) | — |
| – From special capital reserve to general reserve | 29(a) | — | — | — | 479,201 | (479,201) | — | — |
| At 31 July 2007 and 1 August 2007 | | 6,974,701 | 6,572 | 1,200,000 | 479,201 | — | (4,236,476) | 4,423,998 |
| Profit for the year | | — | — | — | — | — | 449,355 | 449,355 |
| Transfer of reserves: | | | | | | | | |
| – From accumulated loss to special capital reserve | 29(a) | — | — | — | — | 71,820 | (71,820) | — |
| – From special capital reserve to general reserve | 29(a) | — | — | — | 24,935 | (24,935) | — | — |
| **At 31 July 2008** | | **6,974,701** | **6,572** | **1,200,000** | **504,136** | **46,885** | **(3,858,941)** | **4,873,353** |

# Notes to Financial Statements

31 July 2008

## 32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

**Disposal of subsidiaries**

| | Note | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Properties under development | | **869,907** | — |
| Interest in an associate | | **—** | 19 |
| Completed properties for sale | | **—** | 1,500 |
| Debtors and deposits | | **3,999** | — |
| Tax recoverable | | **5,114** | — |
| Cash and cash equivalents | | **160,752** | — |
| Creditors and accruals | | **(2,744)** | — |
| Interest-bearing bank loans | | **(240,000)** | — |
| Minority interests | | **(185,588)** | (450) |
| | | **611,440** | 1,069 |
| Reclassification to interests in associates | | **(396,047)** | — |
| Release of goodwill | | **68,811** | — |
| Gain on disposal | 7 | **699,036** | 2,431 |
| | | **983,240** | 3,500 |
| Satisfied by: | | | |
| Cash | | **997,794** | 3,500 |
| Less: expenses incurred in connection with the disposal of a subsidiary | | **(14,554)** | — |
| | | **983,240** | 3,500 |

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

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Cash consideration received, net | **983,240** | 3,500 |
| Cash and cash equivalents disposed of | **(160,752)** | — |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | **822,488** | 3,500 |

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

**Disposal of subsidiaries (continued)**

The subsidiary disposed of during the year contributed turnover of HK$199,735,000 and profit of HK$64,853,000 to the consolidated income statement for that year. The results of the subsidiaries disposed of during the prior year had no significant impact on the Group's consolidated turnover or profit attributable to equity holders of the Company to the consolidated income statement for that year.

## 33. COMMITMENTS

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Capital commitments - contracted, but not provided for | **828** | 2,271 | **828** | 2,271 |

## 34. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| Subsidiaries | **—** | — | **151,500** | 353,499 |
| Associates | **121,496** | 1,231 | **121,496** | 1,231 |
| | **121,496** | 1,231 | **272,996** | 354,730 |

(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 2008

### 34. CONTINGENT LIABILITIES (continued)

(c) Pursuant to certain indemnity deeds (the "Lai Fung Tax Indemnity Deed") 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 Lai Fung Tax Indemnity Deed assumes 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 tax 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.



After taking into account the Property Interests currently held by Lai Fung as at 31 July 2008 which are covered under the Lai Fung Tax Indemnity Deed and the prevailing tax rates and legislation governing in PRC income tax and LAT, the total amount of tax indemnity given by the Company is estimated to be HK$1,341,829,000.

The directors of the Company, after taking into account of the prevailing market situation and the development plan and status of individual property development project as included in the Property Interests and the prevailing tax rates and legislation governing in PRC income tax and LAT, considered it is probable that an amount of HK$464,632,000 of the abovementioned tax indemnity being given by the Company would be crystallised. Therefore, a provision for the tax indemnity in an amount of HK$464,632,000 was recognised in the financial statements for the year ended 31 July 2008.

## 35. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 17) 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 | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **221,420** | 201,884 | **162,633** | 151,453 |
| In the second to fifth years, inclusive | **139,483** | 143,436 | **103,619** | 94,958 |
| | **360,903** | 345,320 | **266,252** | 246,411 |

### (b) As lessee

The Group leases certain property under an operating lease arrangement, with a lease of original term of twelve years with option to terminate the leases upon expiry of 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 | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **9,750** | 7,220 | **9,067** | 5,936 |
| In the second to fifth years, inclusive | **14,255** | 15,111 | **14,255** | 14,428 |
| | **24,005** | 22,331 | **23,322** | 20,364 |

# Notes to Financial Statements

31 July 2008

## 36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

**2008**

| | Group | | | |
|---|---|---|---|---|
| **Financial assets** | | | | |
| | Financial assets at fair value through profit or loss HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Available-for-sale financial assets | — | — | 453,200 | 453,200 |
| Amounts due from associates | — | 810,874 | — | 810,874 |
| Trade and other debtors | — | 25,470 | — | 25,470 |
| Equity investments at fair value through profit or loss | 49,842 | — | — | 49,842 |
| Pledged bank balances and time deposits | — | 94,121 | — | 94,121 |
| Cash and cash equivalents | — | 1,255,348 | — | 1,255,348 |
| | 49,842 | 2,185,813 | 453,200 | 2,688,855 |



**Financial liabilities**

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Amounts due to associates | 15,681 |
| Trade and other creditors | 96,447 |
| Interest-bearing bank and other borrowings | 1,874,878 |
| | 1,987,006 |

## 36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007

Financial assets

| | Group | | |
|---|---|---|---|
| | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Available-for-sale financial assets | — | 743,516 | 743,516 |
| Amounts due from associates | 381,980 | — | 381,980 |
| Trade and other debtors | 46,381 | — | 46,381 |
| Pledged bank balances and time deposits | 95,138 | — | 95,138 |
| Cash and cash equivalents | 965,086 | — | 965,086 |
| | 1,488,585 | 743,516 | 2,232,101 |

Financial liabilities

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Amounts due to associates | 51,326 |
| Trade and other creditors | 90,643 |
| Interest-bearing bank and other borrowings | 2,345,309 |
| | 2,487,278 |

# Notes to Financial Statements

31 July 2008

## 36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | | 2007 | | |
| **Financial assets** | **Loans and receivables HK$'000** | **Available-for-sale financial assets HK$'000** | **Total HK$'000** | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Amounts due from subsidiaries | **3,373,728** | **—** | **3,373,728** | 3,320,173 | — | 3,320,173 |
| Amounts due from associates | **402,496** | **—** | **402,496** | 8,974 | — | 8,974 |
| Available-for-sale investments | **—** | **101** | **101** | — | 14,996 | 14,996 |
| Trade and other debtors | **9,251** | **—** | **9,251** | 12,981 | — | 12,981 |
| Pledged bank balances and time deposits | **94,121** | **—** | **94,121** | 95,138 | — | 95,138 |
| Cash and cash equivalents | **1,097,471** | **—** | **1,097,471** | 750,104 | — | 750,104 |
| | **4,977,067** | **101** | **4,977,168** | 4,187,370 | 14,996 | 4,202,366 |

**Financial liabilities**

| | **2008 Financial liabilities at amortised cost HK$'000** | 2007 Financial liabilities at amortised cost HK$'000 |
|---|---|---|
| Amounts due to associates | **11,503** | 11,503 |
| Amounts due to subsidiaries | **1,005,147** | 1,608,661 |
| Trade and other creditors | **33,213** | 29,986 |
| Interest-bearing bank and other borrowings | **1,594,600** | 1,778,600 |
| | **2,644,463** | 3,428,750 |

The carrying amounts of all financial assets and financial liabilities at amortised cost approximate to their fair values.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale financial assets, equity investments at fair value through profit or loss, pledged bank balances and time deposits, cash and cash equivalents and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to maintain adequate funds for the Group's operations. The Group has various other financial assets and liabilities such as debtors and creditors which arise directly from its daily operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and, credit risk and equity price 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 pledged bank balances and time deposits, cash and cash equivalents and interest-bearing bank and other borrowings with a floating interest rate.



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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant and before any impact on tax, of the Group's profit (through the impact on floating rate pledged bank balances and time deposits, cash and cash equivalents and interest-bearing bank and other borrowings) and the Group's and the Company's equity.

| | Group | | | Company | |
|---|---|---|---|---|---|
| | Decrease in interest rate (in percentage) | Increase in profit HK$'000 | Increase in equity HK$'000 | Decrease in interest rate (in percentage) | Increase in equity HK$'000 |
| 2008 | 0.5% | 2,627 | 2,627 | 0.5% | 2,015 |
| 2007 | 0.5% | 6,425 | 6,425 | 0.5% | 4,667 |

# Notes to Financial Statements

31 July 2008

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

### (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 26. 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 assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.



### (iv) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss (note 25) as at 31 July 2008. The Group's listed investments are listed on the Hong Kong stock exchanges and are valued at quoted market prices at the balance sheet date.

The following table demonstrates the sensitivity to every 5% increase in the fair values of the equity investments, with all other variables held constant and before any impact on tax, of the Group's profit and equity based on their carrying amounts at the balance sheet date.

| | **Increase in profit and equity HK$'000** |
|---|---|
| **2008** | |
| Investments listed in: | |
| Hong Kong - Held-for-trading | 2,492 |

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

### (v) Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis.

The maturity profile of the Group's and the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

**Group**

| | **2008** | | | |
|---|---|---|---|---|
| | **Less than 3 months HK$'000** | **3 to less than 12 months HK$'000** | **1 to 5 years HK$'000** | **Total HK$'000** |
| Amounts due to associates | **—** | **—** | **15,681** | **15,681** |
| Trade and other creditors | **96,447** | **—** | **—** | **96,447** |
| Interest-bearing bank and other borrowings | **57,872** | **151,798** | **1,766,366** | **1,976,036** |
| | **154,319** | **151,798** | **1,782,047** | **2,088,164** |

| | 2007 | | | |
|---|---|---|---|---|
| | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Amounts due to associates | — | — | 51,326 | 51,326 |
| Trade and other creditors | 90,643 | — | — | 90,643 |
| Interest-bearing bank and other borrowings | 82,142 | 456,854 | 2,108,813 | 2,647,809 |
| | 172,785 | 456,854 | 2,160,139 | 2,789,778 |

# Notes to Financial Statements

31 July 2008

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

### (v) Liquidity risk (continued)

**Company**

| | **2008** | | | |
|---|---|---|---|---|
| | **Less than 3 months HK$'000** | **3 to less than 12 months HK$'000** | **1 to 5 years HK$'000** | **Total HK$'000** |
| Amounts due to subsidiaries | **—** | **—** | **1,005,147** | **1,005,147** |
| Amounts due to associates | **—** | **—** | **11,503** | **11,503** |
| Trade and other creditors | **33,213** | **—** | **—** | **33,213** |
| Interest-bearing bank and other borrowings | **56,963** | **111,267** | **1,504,378** | **1,672,608** |
| | **90,176** | **111,267** | **2,521,028** | **2,722,471** |

| | 2007 | | | |
|---|---|---|---|---|
| | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Amounts due to subsidiaries | — | — | 1,608,661 | 1,608,661 |
| Amounts due to associates | — | — | 11,503 | 11,503 |
| Trade and other creditors | 29,986 | — | — | 29,986 |
| Interest-bearing bank and other borrowings | 69,037 | 144,253 | 1,803,303 | 2,016,593 |
| | 99,023 | 144,253 | 3,423,467 | 3,666,743 |

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

### (vi) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group consists of bank and other borrowings and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through issue of new shares as well as maintenance of appropriate level of debts.

The Group monitors capital using a gearing ratio, which is total bank and other borrowings divided by the total equity. The Group's policy is to maintain the gearing ratio at a moderate level which stands at 26% at 31 July 2008. Total equity includes mainly equity attributable to equity holders of the Company. The gearing ratios as at the balance sheet dates were as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Interest-bearing bank and other borrowings | **1,874,878** | 2,345,309 |
| Equity attributable to equity holders of the Company | **7,326,935** | 6,219,982 |
| Gearing ratio | **26%** | 38% |



## 38. COMPARATIVE AMOUNTS

Certain comparative amounts were reclassified to conform with the current year's presentation.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 7 November 2008.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of the Members of the Company will be held at Salon 1-3, JW Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 23 December 2008 at 10:00 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 2008;

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 resolutions as Ordinary Resolutions:

**ORDINARY RESOLUTIONS**

(A) "**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 in 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."

(B) "**THAT**

the authorised share capital of the Company be increased from HK$160,000,000 to HK$172,000,000 by the creation of an additional 1,200,000,000 ordinary shares of HK$0.01 each and that such new ordinary shares, upon issue, shall rank pari passu in all respects with the existing ordinary shares of the Company."

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

Hong Kong, 7 November 2008

# Notice of Annual General Meeting

**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.

(3) Concerning item 2 of this Notice, Mr. Wan Yee Hwa, Edward was appointed an independent non-executive director of the Company on 16 June 2008. In accordance with Article 93 of the Company's Articles of Association, Mr. Wan will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 102 of the Company's Articles of Association, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven, Mr. Cheung Wing Sum, Ambrose, Mr. Lam Kin Ming and Mr. Lam Bing Kwan will 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 2007–2008 Annual Report of the Company.



(4) Ordinary Resolution (A) 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.

Ordinary Resolution (B) under item 4 relates to the increase in authorised share capital of the Company. The increase has been proposed to ensure that there is sufficient number of unissued shares in the authorised share capital of the Company should any issue of new shares pursuant to the general mandate under Ordinary Resolution (A) above and the existing share option scheme of the Company become necessary.

The Company has no immediate plan to issue new shares under the general mandate or following the increase in authorised share capital.

(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.