LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

(Stock code: 1125)

Annual Report 2007-2008

Contents

Lai Fung Holdings Limited

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E-mail info@laifung.com

Stock code on Hong Kong Stock Exchange: 1125

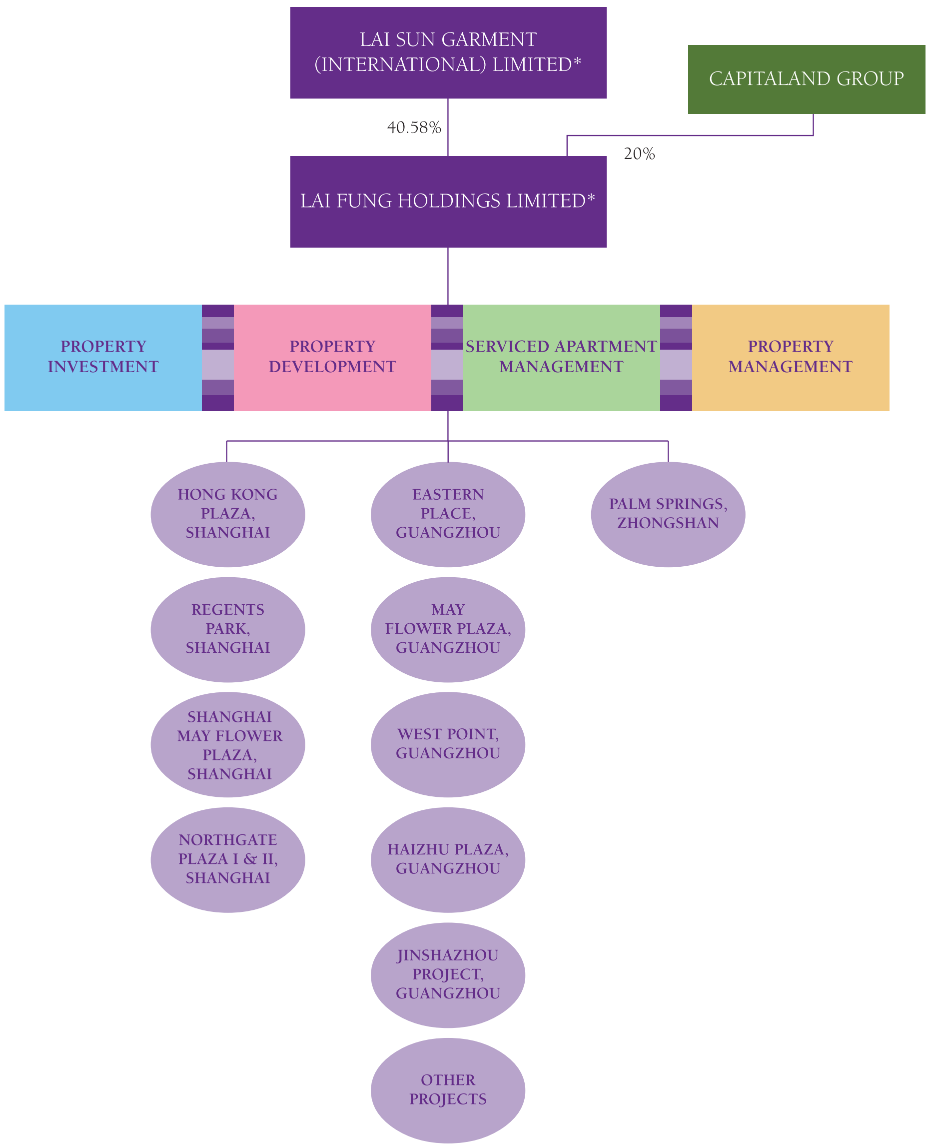
Corporate Profile

Lai Fung Holdings Limited ("Lai Fung") is a member of the Lai Sun Group and was listed on The Stock Exchange of Hong Kong Limited in November 1997. Lai Fung is the property development and investment arm in the Mainland of China ("China") of the Lai Sun Group.

Lai Fung's core businesses include the investment and development of serviced apartments, residential, office and commercial properties in prime locations in major gateway cities in China with excellent accessibility and infrastructure.

Placing its focus on high economic growth cities such as Shanghai and Guangzhou, Lai Fung has developed a number of major projects, including the prestigious Hong Kong Plaza in Shanghai and Eastern Place in Guangzhou.

With over ten years of extensive experience in and in-depth knowledge of property development in China, Lai Fung is well poised to benefit from the growing demand for quality properties in China.



* *Listed on Main Board of Hong Kong Stock Exchange*

Corporate Information

Place of Incorporation
Cayman Islands

Directors
Lam Kin Ngok, Peter *(Chairman)*
Lam Kin Ming *(Deputy Chairman)*
Lam Kin Hong, Matthew
(Executive Deputy Chairman)
Lam Hau Yin, Lester *(Chief Executive Officer)*
U Po Chu
Lau Shu Yan, Julius
Tam Kin Man, Kraven
Leung Churk Yin, Jeanny
Cheung Sum, Sam
Cheng Shin How
Lim Ming Yan
Leow Juan Thong, Jason
(alternate director to Lim Ming Yan)
Wong Yee Sui, Andrew*
Lam Bing Kwan*
Ku Moon Lun*

* *Independent non-executive director*

Registered Office
P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman, Cayman Islands
British West Indies

Secretary and Principal Place of Business in Hong Kong
Yeung Kam Hoi
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon, Hong Kong

Qualified Accountant
Hui Hon Pong

Share Registrar in Hong Kong
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
As to Hong Kong law:
Vincent T.K. Cheung, Yap & Co.
11th Floor, Central Building
1-3 Pedder Street
Central, Hong Kong

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central, Hong Kong

Linklaters
10th Floor, Alexandra House
18 Chater Road
Central, Hong Kong

As to Cayman Islands law:
Maples and Calder Asia
53rd Floor, The Center
99 Queen's Road Central
Central, Hong Kong

Principal Bankers
China CITIC Bank Corporation Limited
China Construction Bank Corporation
CITIC Ka Wah Bank Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

Chairman's Statement

Chairman LAM Kin Ngok, Peter

RESULTS

For the year ended 31 July 2008, the Group recorded a turnover of HK$868,001,000 (2007: HK$792,420,000) and a gross profit of HK$622,837,000 (2007: HK$425,309,000), representing an increase of approximately 10% and 46% respectively from previous year. Profit from operating activities was HK$761,532,000 (2007: HK$585,752,000) and profit attributable to equity holders of the Company was HK$206,005,000 (2007: HK$470,351,000), representing an increase of approximately 30% and a decrease of approximately 56% respectively from previous year.

The increase in profit from operating activities was mainly attributable to higher turnover, higher gross profit margin and higher revaluation gain on investment properties of the Group, despite an exchange loss of HK$160,102,000 (2007: HK$31,079,000) arising from the cross currency swap on the US$200 million senior notes issued in April 2007, which has been included in other operating expenses, net. The decrease in profit attributable to equity holders of the Company was mainly due to higher finance costs which included full-year interest expenses on the US$200 million senior notes and higher provision for corporate income tax and land appreciation tax as a result of sales of Regents Park Phase II. In addition, the deferred tax for the year ended 31 July 2008 also increased as a result of the increase in value of the Group's investment properties while there were certain write-back of provisions on deferred tax as a result of adjustment in the corporate income tax rate in China for the year ended 31 July 2007.

Chairman's Statement

RESULTS (continued)

Basic earnings per share was 2.56 HK cents for the year ended 31 July 2008 compared to 5.84 HK cents for the previous year.

Shareholders' equity as at 31 July 2008 amounted to HK$6,909,222,000, up from HK$5,955,983,000 as at 31 July 2007. Net asset value per share attributable to equity holders of the Company was HK$0.86 as at 31 July 2008, as compared to HK$0.74 as at 31 July 2007.

FINAL DIVIDEND

The Board of Directors has recommended a final dividend of 0.4 HK cent per share for the year ended 31 July 2008 (2007: 0.4 HK cent per share) payable to shareholders whose names appear on the Register of Members of the Company as at the close of business on 23 December 2008. Subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, the dividend will be payable on 20 January 2009.

BUSINESS REVIEW

Investment properties

Property rental results

During the year ended 31 July 2008, the Group recorded a turnover of HK$254,160,000 from rental income. Breakdown of turnover from rental income is as follows:

	Year ended 31 July		
	2008	2007	Change
	HK$	HK$	%
Shanghai			
Hong Kong Plaza	**181,437,000**	174,456,000	4
Regents Park (commercial podium)	**6,028,000**	—	n/a
Northgate Plaza I	**9,797,000**	—	n/a
Guangzhou			
May Flower Plaza	**56,898,000**	46,617,000	22
Total	**254,160,000**	221,073,000	15

Chairman's Statement

BUSINESS REVIEW (continued)

Development properties

Property sales results

	Approximate contracted sales area sq.m.	Approximate average contracted selling price HK$/sq.m.	Approximate contracted total sales amount* HK$
Shanghai			
Regents Park, Phase II	17,900	35,500	602,699,000
Guangzhou			
Eastern Place			11,142,000
Total			613,841,000

* *After business tax*

During the year ended 31 July 2008, the Group concluded total contracted sales area of approximately 17,900 sq.m. on Regents Park Phase II. Certain remaining residential units and car parks of Eastern Place were sold in this financial year.

MARKET OVERVIEW AND OPERATING ENVIRONMENT

The Group is principally engaged in property development for sale and property investment for rental purposes in the Mainland of China ("China"). The Group currently has property projects in Shanghai, Guangzhou and Zhongshan.

In 2008, the austerity measures implemented by the Central Government which were aimed at preventing the economy from overheating and ensuring a more stable and healthy real estate market had impacted property prices in some regions. In addition, the snowstorm, the Sichuan earthquake and the significant adjustment in China's stock market also affected market sentiment and the volume of transactions in China's real estate market.

Chairman's Statement

MARKET OVERVIEW AND OPERATING ENVIRONMENT (continued)

The fallout from U.S. subprime predicament and the credit crunch created a lot of uncertainties. The global economic outlook will continue to be unstable. While China's economic growth has shown signs of easing in the short term, its long term economic prospect remains positive and optimistic. China's property market is still at the early stage of development. Ongoing urbanisation and demand for living improvement are expected to continue to hold firm. We believe that the efforts of the government to protect the real estate industry will ensure healthy development in the long term, although the global economic environment will be unstable, which may have some impact on China's economy and may affect the real estate industry in the short term.

REVIEW OF MAJOR PROPERTY PROJECTS

Shanghai

Shanghai Hong Kong Plaza

Hong Kong Plaza is a twin-tower prime property located at Huaihaizhong Road, Luwan District, Shanghai comprising office, shopping arcades and serviced apartments. The property is directly above Huangpi Road South Metro Station and is within walking distance of Xintiandi. Rental income for the year ended 31 July 2008 amounted to HK$181,437,000, up from HK$174,456,000 in the previous year.

The planned renovation work on the shopping arcades under the serviced apartment tower has commenced in July this year. It is expected that the renovation will be completed in the second half of 2009. The renovation of the shopping arcades under the office tower will commence as soon as the existing tenants have moved out from the premises. The Group is currently negotiating with the existing tenants in this regard. The Group is also considering to renovate the whole serviced apartment tower to upgrade the quality of the rooms and the services. In addition, the common areas of the office tower and the lift lobbies for both office tower and serviced apartment tower will be renovated. It is estimated that full renovation works of Hong Kong Plaza will be completed in 2010. The rental income of Hong Kong Plaza is expected to be substantially improved from its current level upon completion of renovation. In the meantime, the rental income will be affected during the renovation period.

Chairman's Statement

REVIEW OF MAJOR PROPERTY PROJECTS (continued)

Shanghai (continued)

Shanghai Regents Park

Regents Park is a major residential project located in the Zhongshan Park Commercial Area of the prestigious Changning District, Shanghai with a total saleable gross floor area ("GFA") of approximately 154,000 sq.m. (GFA attributable to the Group of approximately 146,000 sq.m.).

Phase II of the project comprises 6 residential towers with 455 units (GFA attributable to the Group of approximately 59,000 sq.m.). Pre-sale of 3 residential towers in Phase II started in April 2008 and a total of 142 units were sold with a contracted value of approximately HK$635 million. The Group will closely monitor the market conditions and adjust our marketing strategy.

Shanghai May Flower Plaza

Shanghai May Flower Plaza is a mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Zhabei District in Shanghai. This project is situated near the Zhongshan Road North Metro Station. The Group has an effective 95% interest in the project.

The project has a total GFA of approximately 114,500 sq.m. (GFA attributable to the Group of approximately 109,000 sq.m.), comprising residential and office apartments and commercial spaces. In addition, there will be approximately 33,000 sq.m. for carparks and ancillary facilities. Construction work has already commenced since October 2007 and is scheduled to be completed in 2010.

Shanghai Northgate Plaza

Northgate Plaza I is a block of office units with retail podium located in Tian Mu Road West in the Zhabei District of Shanghai near the Shanghai Railway Terminal. The Group has a 96.6% interest in this property. The property has a total GFA of approximately 36,500 sq.m. including carparks.

The Group plans to develop Northgate Plaza II on the vacant site located adjacent to Phase I. The Group has a 99.0% interest in Phase II.

The Phase II development will have a total GFA of approximately 28,800 sq.m. comprising serviced apartments with retail podium. In addition, there will be some car parks. Construction work has commenced earlier this year and is scheduled to be completed in 2011.

Guangzhou Jinshazhou Project
(architectual rendering)

Shanghai Hong Kong Plaza

Shanghai Regents Park

Shanghai Northgate Plaza Phase II
(architectual rendering)

Shanghai May Flower Plaza *(architectual rendering)*

Chairman's Statement

REVIEW OF MAJOR PROPERTY PROJECTS (continued)

Guangzhou and Zhongshan

Guangzhou May Flower Plaza

Guangzhou May Flower Plaza is a prime property situated at Zhongshanwu Road, Yuexiu District directly above the Gongyuanqian Metro Station in Guangzhou, the interchange station of Guangzhou Subway Lines No. 1 and 2. The Group has an effective 77.5% interest in this property.

This 13-storey complex has a total GFA of approximately 51,000 sq.m. (GFA attributable to the Group of approximately 39,000 sq.m.) comprising retail spaces, restaurants and fast food outlets, cinema and office units. The property is fully leased to various tenants that are well known corporations, consumer brands, cinemas and restaurants. Rental income from May Flower Plaza was HK$56,898,000 for the year ended 31 July 2008, representing an increase of approximately 22% from previous year.

Guangzhou Eastern Place

Eastern Place is a multi-phase project located in Dongfeng East Road, Yuexiu District, Guangzhou.

The Phase V development will have a total GFA attributable to the Group of approximately 101,000 sq.m. comprising residential blocks, serviced apartments, offices and retail spaces. Construction work has commenced and is scheduled to be completed in 2011.

Guangzhou West Point

West Point is located in Zhongshan Qi Road and is within walking distance from the Ximenkou Subway Station. The project has a total GFA of approximately 64,000 sq.m., comprising 243 residential units, serviced apartments and commercial spaces. In addition, there will be approximately 10,000 sq.m. for carparks and ancillary facilities. Pre-sale of residential units has been started in July this year and a total of 60 units were sold with a contracted value of HK$89 million as at 31 July 2008. Subsequent to 31 July 2008, an additional 54 units have been sold.

Guangzhou Jinshazhou Project

Jinshazhou project is a 50:50 joint venture with CapitaLand China Holdings Pte. Ltd. This proposed development in Hengsha, Baiyuan District, Guangzhou has a total GFA of approximately 369,000 sq.m. (GFA attributable to the Group of approximately 184,500 sq.m.), comprising low-rise and high-rise residential units with ancillary facilities including carparks and shopping amenities.

The project is currently at the planning stage. According to current development schedule, the project will be completed in phases from 2010 to 2012.

Guangzhou Donghua Dong Road Project
(architectual rendering)

Guangzhou May Flower Plaza

Guangzhou Guan Lu Road Project
(architectual rendering)

Guangzhou West Point *(architectual rendering)*

Guangzhou Eastern Place Phase V *(architectual rendering)*

Guangzhou Hai Zhu Plaza *(architectual rendering)*

Chairman's Statement

REVIEW OF MAJOR PROPERTY PROJECTS (continued)

Guangzhou and Zhongshan (continued)

Guangzhou Hai Zhu Plaza

Hai Zhu Plaza is located in Chang Di Main Road in Yuexiu District, Guangzhou along the Pearl River. The Group owns the entire interest in this project.

The proposed development has a GFA of approximately 103,000 sq.m., and is intended to be developed into a grade-A office tower, a serviced apartment tower, retail podium, carparks and ancillary facilities.

The project is currently in the process of resettlement of original occupants and the development is expected to be completed in 2012.

Guangzhou Donghua Dong Road Project

The site is located in Donghua Dong Road in Yuexiu District. The permitted GFA is approximately 10,000 sq.m. The project is currently at the planning stage and is intended to be developed into a residential tower, carparks and ancillary facilities. The project is expected to be completed in 2011.

Guangzhou Da Sha Tou Road / Yuan Jiang Dong Road Project

The site is located at the junction of Da Sha Tou Road and Yuan Jiang Dong Road in Yuexiu District. The permitted GFA is approximately 8,000 sq.m. The project is currently at the planning stage and is intended to be developed into a serviced apartment tower, carparks and ancillary facilities. The project is expected to be completed in 2011.

Guangzhou Guan Lu Road Project

The site is located in Guan Lu Road in Yuexiu District. The permitted GFA is approximately 14,000 sq.m. The project is currently at the planning stage and is intended to be developed into a residential tower, carparks and ancillary facilities. The project is expected to be completed in 2011.

Zhongshan Palm Springs

The project is located in Caihong Planning Area, West District of Zhongshan and has a total GFA of approximately 500,000 sq.m. Phase I of the project will comprise 27 blocks of residential towers with a total GFA of approximately 138,000 sq.m. Construction work has commenced since February this year and is expected to be completed in 2010. Other phases of the project are expected to be completed between 2011 and 2013.

Chairman's Statement

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

As at 31 July 2008, the Group had total borrowings in the amount of HK$2,872 million (2007: HK$2,746 million), representing an increase of HK$126 million. The consolidated net assets attributable to the equity holders of the Company amounted to HK$6,909 million (2007: HK$5,956 million). The total debt to equity ratio was 42% (2007: 46%) and the total debt to total capitalisation (long-term debt + equity) ratio was 31% (2007: 35%).

Approximately 53% and 45% of the Group's borrowings were on a fixed rate basis and floating rate basis respectively, while the remaining 2% of the Group's borrowings were interest-free.

Apart from the senior notes, the Group's other borrowings of HK$1,354 million were 41% denominated in Renminbi ("RMB"), 14% in Hong Kong dollars ("HKD") and 45% in United States dollars ("USD").

In order to match its USD exposure on the senior notes with its revenues, which are mainly denominated in RMB, the Group has hedged its USD exposure on the senior notes into RMB. Apart from this hedge, the Group does not hedge its other exposures in RMB and USD.

During the recent financial turmoil, USD has strengthened against RMB. However, we believe that this may be a short term phenomenon and RMB may continue to appreciate against USD when the financial market stabilises. In view of this, on 28 October 2008, the Company has taken the opportunity to terminate the cross currency swap agreements with financial institutions and received approximately HK$65,130,000 as proceeds. Together with the reversal of fair value loss on the cash flow hedges arising from the cross currency swap agreements and the balance of related hedge reserve as at 31 July 2008, total gains of approximately HK$256,311,000 are expected to be recognised in the consolidated income statement for the six months ending 31 January 2009. The above accounting treatments are subject to review and confirmation by the auditors for the audit of the final results of the Group for the year ending 31 July 2009. After the termination of the cross currency swap agreements, the Group does not have any derivative financial instruments or hedging instruments outstanding.

As at 31 July 2008, the Group's bank borrowings were spread over a period of eight years, with approximately 45.0% repayable within one year, 54.4% repayable between two to five years and 0.6% repayable over five years. The term loans of the Group have amortisation throughout the tenure.

Chairman's Statement

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE (continued)

Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value of approximately HK$4,313 million, serviced apartments with carrying value of approximately HK$554 million, properties under development with carrying value of approximately HK$601 million, completed properties for sale with carrying value of approximately HK$502 million, a property with carrying value of approximately HK$44 million and bank balances of approximately HK$213 million.

Taking into account cash held as at the balance sheet date, available banking facilities and the recurring cashflow from the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing property development and investment projects.

CONTINGENT LIABILITIES

According to a practice common among banks in China when providing mortgage financing to property buyers, the bank will require a property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Group is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, Phase I of Regents Park and Phases I to IV of Eastern Place. The Group's contingent liabilities under these obligations have been gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 July 2008, the Group employed a total of around 1,000 staff. The Group recognises the importance of maintaining a stable staff force in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include share option scheme, mandatory provident fund, free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

Chairman's Statement

PROSPECTS

In order to cope with the risks and uncertainties associated with the current economic environment, the Group will continue its prudent approach in acquisition strategy and in managing our business in China. In the next few months, we will focus on the sale of Regents Park Phase II in Shanghai and pre-sale of West Point in Guangzhou. We will closely monitor the market condition and adjust our marketing strategy accordingly.

The Group will also focus on the construction progress of our existing projects and the renovation work of Hong Kong Plaza. Initial discussions have already been commenced with potential tenants for Hong Kong Plaza. Marketing programme is expected to commence soon for the retail podium in West Point.

The Group is cautiously optimistic in China's real estate market in the medium to long term.

MANAGEMENT AND STAFF

On behalf of the Board, I would like to record my appreciation of the hard work and perserverance of the management and staff of the Company during the year. I would also like to thank our shareholders and business partners for their valuable support.

Lam Kin Ngok, Peter
Chairman

Hong Kong
7 November 2008

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding.

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 July 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 129.

The directors have recommended a final dividend of 0.4 HK cent per ordinary share for the year ended 31 July 2008 (2007: 0.4 HK cent per ordinary share). No interim dividend has been declared or paid by the Company for the year (2007: Nil).

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:

Executive directors:

Lam Kin Ngok, Peter *(Chairman)*
Lam Kin Ming *(Deputy Chairman)*
Lam Kin Hong, Matthew *(Executive Deputy Chairman)*
Lam Hau Yin, Lester *(Chief Executive Officer)*
U Po Chu
Lau Shu Yan, Julius
Tam Kin Man, Kraven
Leung Churk Yin, Jeanny (appointed on 1 September 2007)
Cheung Sum, Sam
Cheng Shin How

Non-executive directors:

Lim Ming Yan
Leow Juan Thong, Jason # (appointed as alternate director to Lim Ming Yan on 5 November 2008)
Wong Yee Sui, Andrew*
Lam Bing Kwan*
Ku Moon Lun*
Cheong Kwok Mun # (ceased to act as alternate director to Lim Ming Yan on 5 November 2008)

Alternate director to Lim Ming Yan

* *Independent non-executive director*

Report of the Directors

DIRECTORS (continued)

In accordance with Article 116 of the Company's Articles of Association, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Mr. Lam Hau Yin, Lester, Mr. Lau Shu Yan, Julius and Mr. Tam Kin Man, Kraven retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. Wong Yee Sui, Andrew, who also retires by rotation in accordance with Article 116 of the Company's Articles of Association, will not be offering himself for re-election.

In accordance with Rule 13.74 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), details required under Rule 13.51(2) of the aforesaid directors who offer themselves for re-election had been included in the "Biographical Details of Directors and Senior Management" section of this report. All directors concerned have confirmed that there is no other information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules and there are no other matters that need to be brought to the attention of the shareholders of the Company.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 39(a)(i), (ii) and (iv) to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Mr. Lam Kin Hong, Matthew, Mr. Lau Shu Yan, Julius, Madam U Po Chu, Mr. Lim Ming Yan, Mr. Leow Juan Thong, Jason and Mr. Cheng Shin How held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong and China.

As the board of directors of the Company (the "Board") is independent from the boards of directors 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 business independent of, and at arm's length from, the businesses of such companies.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors:

Mr. Lam Kin Ngok, Peter, Chairman, aged 51, was appointed a director of the Company in November 1993. Mr. Lam is also the chairman of Lai Sun Development Company Limited ("LSD") and Media Asia Entertainment Group Limited, the deputy chairman of Lai Sun Garment (International) Limited ("LSG"), an executive director of eSun Holdings Limited ("eSun") and Crocodile Garments Limited ("CGL") and a director of Silver Glory Securities Limited ("Silver Glory"). LSD, LSG, eSun and CGL are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Both LSG and Silver Glory are substantial shareholders of the Company. Mr. Lam has extensive experience in 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 Hong Kong-Vietnam Chamber of Commerce Limited and the Real Estate Developers Association of Hong Kong. He is a member of the 11th National Committee of the Chinese People's Political Consultative Conference. Mr. Lam is a son of Madam U Po Chu and is the younger brother of Mr. Lam Kin Ming. Mr. Lam has interest in the listed shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Details are set out in the "Directors' Interests" and "Substantial Shareholders' and Other Persons' Interests" sections. Mr. Lam has a service contract with the Company and he will be subject to retirement by rotation once every three years since his last election in 2005 and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lam is entitled to receive such remuneration 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.

Mr. Lam Kin Ming, Deputy Chairman, aged 71, was appointed a director of the Company in September 1997. Mr. Lam is the chairman of Lai Sun Garment (International) Limited ("LSG") (a substantial shareholder of the Company), the chairman and chief executive officer of Crocodile Garments Limited ("CGL") and a non-executive director of Lai Sun Development Company Limited ("LSD") and eSun Holdings Limited ("eSun"). LSG, CGL, LSD and eSun are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam has extensive experience in property development and investment and garment businesses, and has been involved in the day-to-day management of the garment business since 1958. Mr. Lam is the elder brother of Mr. Lam Kin Ngok, Peter. Mr. Lam does not have any interest in the listed shares and debentures of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lam has a service contract with the Company and will be subject to retirement by rotation once every three years since his last election in 2005 and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lam is entitled to receive such remuneration 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Mr. Lam Kin Hong, Matthew, Executive Deputy Chairman, aged 40, was appointed a director of the Company in December 2001. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. He attained a Bachelor of Science degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in property development and corporate finance in Hong Kong and China. Mr. Lam is the younger brother of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming.

Mr. Lam Hau Yin, Lester, Chief Executive Officer, aged 27, was appointed a director of the Company in April 2005. He is also an executive director of Lai Sun Garment (International) Limited ("LSG") and a director of Silver Glory Securities Limited ("Silver Glory"), an alternate director to Madam U Po Chu, a non-executive director of LSG, and a vice president of Lai Sun Development Company Limited ("LSD"). Both LSG and LSD are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Both LSG and Silver Glory are substantial shareholders of the Company. He holds a Bachelor of Science in Business Administration degree from Northeastern University, Boston, USA. He has attained working experience since 1999 in various companies engaged in securities investment, hotel operations, environmental products and entertainment. He is a son of Mr. Lam Kin Ngok, Peter. Mr. Lam does not have any interest in the listed shares and debentures of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lam does not have a service contract with the Company but 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. Mr. Lam is entitled to receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Madam U Po Chu, aged 83, was appointed a director of the Company in February 2003. She is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited and eSun Holdings Limited. Madam U has over 55 years of experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and became involved in property development and investment in the late 1980's. Madam U is Mr. Lam Kin Ngok, Peter's mother.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Mr. Lau Shu Yan, Julius, aged 52, was appointed a director of the Company in April 2005. He is also the chief executive officer of Lai Sun Development Company Limited ("LSD"), having joined the board of LSD in July 1991. LSD is a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lau has over 20 years of 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. He is also a director of a number of subsidiaries of the Company. Save as disclosed aforesaid, Mr. Lau does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Lau has interest in the listed shares and debentures of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Details are set out in the "Directors' Interests" section. Mr. Lau does not have any service contract with the Company but 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. Mr. Lau is entitled to receive such remuneration 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.

Mr. Tam Kin Man, Kraven, aged 60, was appointed a director of the Company in April 2005. He is also a director of Lai Sun Development Company Limited ("LSD") and Lai Sun Garment (International) Limited ("LSG") (a substantial shareholder of the Company). He joined LSD in March 1989 and is currently a director of Furama Hotel Enterprises Limited and a number of subsidiaries of the Company. Both LSD and LSG are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has close to 30 years of experience in property development, investment and management. He also has over 18 years of experience in the hospitality business covering hotels, restaurants and clubs in Asia and North America. He was a director and chief executive officer of the Company from May 1996 to June 1999. Save as disclosed aforesaid, Mr. Tam does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Tam has interest in the listed shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Details are set out in the "Directors' Interests" section. Mr. Tam does not have any service contract with the Company but 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. Mr. Tam is entitled to receive such remuneration 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Miss Leung Churk Yin, Jeanny, aged 43, was appointed a director of the Company in September 2007. Miss Leung has over 20 years of corporate finance experience in Hong Kong, China and Taiwan. Miss Leung is an executive director of both Lai Sun Garment (International) Limited ("LSG") and Lai Sun Development Company Limited, an executive director and the chief executive officer of eSun Holdings Limited, an independent non-executive director of Top Form International Limited and a director of Silver Glory Securities Limited ("Silver Glory"). LSG and Silver Glory are substantial shareholders of the Company.

Mr. Cheung Sum, Sam, aged 44, was appointed a director of the Company in June 2007. He joined Lai Sun Development Company Limited ("LSD") as senior vice president in November 2006 and was appointed an executive director of LSD on 1 June 2007. From March 2002 to February 2006, he was an executive director and chief financial officer of a listed company in Hong Kong, which was later privatised in August 2007. Before that, he worked for a number of international investment banks and other listed companies in Hong Kong. Mr. Cheung has extensive experience in corporate finance, investment banking and financial management. He graduated from London School of Economics and Political Science, University of London, with a Bachelor of Science (Economics) degree in Accounting and Finance. He is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants.

Mr. Cheng Shin How, aged 42, was appointed a director of the Company in June 2007. He is the Regional Director of the Hong Kong and Macau office of CapitaLand Limited (a substantial shareholder of the Company), which is headquartered in Singapore and is one of the largest listed real estate companies in Asia. He is also a director of CapitaLand China Holdings Pte Ltd., a substantial shareholder of the Company. Mr. Cheng joined CapitaLand Group in 1999 to head the Hong Kong office and has been involved in CapitaLand Group's real estate investment in Hong Kong, Macau and China. Prior to joining CapitaLand Limited, Mr. Cheng was with CB Richard Ellis, an international property consultancy firm where he was involved in property valuation, development and investment consultancy. Mr. Cheng has been involved in the China business since 1993. Mr. Cheng graduated with an Honours degree in Land Management from University of Reading, United Kingdom. He is also a Licensed Appraiser in Singapore.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-executive directors:

Mr. Lim Ming Yan, aged 45, was appointed a director of the Company in June 2006. Mr. Lim is the chief executive officer of CapitaLand China Holdings Group and CapitaLand Financial Limited (China Development) and is responsible for CapitaLand Group's real estate development and financial operations in China. Mr. Lim is a director of CapitaLand China Holdings Pte Ltd. ("CapitaLand China") and CapitaLand LF (Cayman) Holdings Co., Ltd., both being substantial shareholders of the Company. CapitaLand China is a developer of premier homes and quality commercial properties in various gateway cities in China since 1994. CapitaLand China is a wholly-owned subsidiary of CapitaLand Limited, one of the largest listed property companies in Asia. In recognition of his contributions, Mr. Lim was conferred "Magnolia Award" by Shanghai Municipal government in 2003 and 2005. Mr. Lim studied at the University of Birmingham, United Kingdom where he graduated with first class honors. He also attended the Advanced Management Program at Harvard Business School in 2002.

Mr. Leow Juan Thong, Jason, aged 42, was appointed an alternate director to Mr. Lim Ming Yan, a non-executive director of the Company, in November 2008. He is the Deputy Chief Executive Officer of CapitaLand China Holdings Pte Ltd. ("CapitaLand China"), the holding company of CapitaLand LF (Cayman) Holdings Co., Ltd. which is a substantial shareholder of the Company. CapitaLand China is an indirect wholly-owned subsidiary of CapitaLand Limited, one of Asia's largest listed real estate companies, headquartered in Singapore. Mr. Leow joined CapitaLand Group in 2001. Prior to joining CapitaLand Group, he worked at ST Aerospace Ltd, DBS Finance Ltd. and The Ascott Group. He has over 13 years of experience in real estate investment. Mr. Leow obtained an Executive Master degree in Business Administration from Fudan University in 2007. He is a Certified Public Accountant and has been a member of the Institute of Certified Public Accountants of Singapore since 1991.

Independent non-executive directors:

Mr. Wong Yee Sui, Andrew, aged 59, was appointed an independent non-executive director of the Company in December 1999. Mr. Wong graduated from the University of Adelaide, South Australia in 1971 and obtained a Master of Business Administration degree at Queen's University, Canada in 1974. He became a Chartered Accountant in 1976 in Quebec, Canada, and a fellow member of Hong Kong Institute of Certified Public Accountants in 1988. Mr. Wong has extensive experience in the auditing and finance fields in Hong Kong and overseas. He is a partner of W. M. Sum & Co., a firm of certified public accountants in Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent non-executive directors: (continued)

Mr. Lam Bing Kwan, aged 59, was appointed an independent non-executive director of the Company in July 2001. 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 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 an independent non-executive director of Lai Sun Development Company Limited and eForce Holdings Limited, and a non-executive director of Sino-i Technology Limited and Nan Hai Corporation Limited, all listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Ku Moon Lun, aged 57, was appointed an independent non-executive director of the Company in June 2006. Mr. Ku has more than 35 years of experience in the real estate industry. He was the executive director of Davis Langdon & Seah International ("DLSI"), a property consultant firm, until end of 2005 where he was responsible for formulating the policies and steering the direction of the DLSI group of companies. He was also the Chairman of the board of directors of Davis Langdon & Seah Hong Kong Limited from 1995 to 2004. Mr. Ku was previously the Chairman of Premas Hong Kong Limited, a facilities management company, from 2000 to 2002. He was also the Chairman of icFox International, an information technology company, from 2000 to 2003. Currently, Mr. Ku is an independent non-executive director of Ascott Residence Trust Management Limited in Singapore and Kerry Properties Limited, which is listed on The Stock Exchange of Hong Kong Limited. Mr. Ku is the Regional Adviser (Asia) to Trust Company Limited, a listed company in Australia. He is also a member of the Hospital Governing Committee of Tuen Mun Hospital, Hong Kong Hospital Authority. Mr. Ku is a fellow of the Hong Kong Institute of Surveyors.

Senior management:

Mr. Tse Ho Yin, Iain, aged 59, joined the Company in March 2005 as General Manager, Guangzhou region. Mr. Tse retired from the civil service after having served in the Hong Kong Police Force for 32 years. Immediately prior to his retirement, Mr. Tse, in his rank as a senior superintendent, was the deputy commander of a police district in the Kowloon West Region, with a working force of over 1,000 police and civilian officers of various ranks under his command.

Mr. Wong Kam Kwan, aged 60, joined Lai Sun Group in December 2004 and is currently the General Manager for Shanghai region. Mr. Wong graduated from the Chinese University of Hong Kong in 1971 and has over 30 years of working experience and extensive exposure in the property industry. Mr. Wong has been a senior management member of a few listed public property companies in Hong Kong before joining Lai Sun Group.

Report of the Directors

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the 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 21 August 2003 for the purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to Eligible Employees (as defined in the Share Option Scheme) of the Company.

Details of the Share Option Scheme are set out in note 31 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 any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company to be notified to the Company and the Stock Exchange:

(A) Long Positions in the Shares of the Company

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total	Percentage
Lam Kin Ngok, Peter	Nil	Nil	3,265,688,037 *(Note)*	Nil	Owner of Controlled Corporation	3,265,688,037	40.58%
Lau Shu Yan, Julius	4,458,829	Nil	Nil	Nil	Beneficial Owner	4,458,829	0.06%
Tam Kin Man, Kraven	Nil	Nil	Nil	30,000,000 (under share option)	Beneficial Owner	30,000,000	0.37%
Cheung Sum, Sam	Nil	Nil	Nil	22,500,000 (under share option)	Beneficial Owner	22,500,000	0.28%

DIRECTORS' INTERESTS (continued)

Note:

These interests in the Company represent the shares beneficially owned by Lai Sun Garment (International) Limited ("LSG") (1,869,206,362 shares) and Silver Glory Securities Limited ("SGS") (1,396,481,675 shares), a wholly-owned subsidiary of LSG. Mr. Lam Kin Ngok, Peter was deemed to be interested in the 3,265,688,037 shares in the Company held by LSG and SGS since he held (1) a 50% interest in Wisdoman Limited which in turn held 484,991,750 shares in LSG and (2) a personal interest of 124,644,319 shares in LSG, representing in aggregate approximately 37.69% of the issued share capital of LSG.

(B) Interests in the Debentures of the Company (in USD)

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Capacity	Total
Lau Shu Yan, Julius	300,000	Nil	Nil	Nil	Beneficial Owner	300,000
Cheung Sum, Sam	200,000	Nil	Nil	Nil	Beneficial Owner	200,000

Save as disclosed above, as at 31 July 2008, none of the directors and chief executive of the Company were interested, or were 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 in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long Positions in the Shares of the Company

Name	Capacity	Nature of Interest	Number of Shares	Percentage
Lai Sun Garment (International) Limited ("LSG")	Beneficial Owner	Corporate Interest	3,265,688,037 *(Note 1)*	40.58%
Silver Glory Securities Limited ("SGS")	Beneficial Owner	Corporate Interest	1,396,481,675	17.35%
Lam Kin Ngok, Peter	Owner of Controlled Corporation	Corporate Interest	3,265,688,037 *(Note 2)*	40.58%
CapitaLand China Holdings Pte Ltd.	Owner of Controlled Corporation	Corporate Interest	1,610,000,000	20%
CapitaLand LF (Cayman) Holdings Co., Ltd	Beneficial Owner	Corporate Interest	1,610,000,000	20%
CapitaLand Limited	Owner of Controlled Corporation	Corporate Interest	1,610,000,000	20%
CapitaLand Residential Limited	Owner of Controlled Corporation	Corporate Interest	1,610,000,000	20%
Temasek Holdings (Private) Limited	Owner of Controlled Corporation	Corporate Interest	1,610,000,000	20%
Allianz SE	Owner of Controlled Corporation	Corporate Interest	554,944,711	6.90%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Long Positions in the Shares of the Company

Name	Capacity	Nature of Interest	Number of Shares	Percentage
Dresdner Bank Aktiengesellschaft	Owner of Controlled Corporation	Corporate Interest	554,944,711	6.90%
Veer Palthe Voute NV	Investment Manager	Corporate Interest	554,944,711	6.90%

Notes:

1. These interests in the Company represent the shares beneficially owned by LSG (1,869,206,362 shares) and SGS (1,396,481,675 shares), a wholly-owned subsidiary of LSG. SGS's interest constituted part of the interest held by LSG.

2. Mr. Lam Kin Ngok, Peter was deemed to be interested in 3,265,688,037 shares held by LSG and SGS by virtue of his approximate 37.69% interest in the issued share capital of LSG.

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.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in note 26 to the financial statements, 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.

CONNECTED TRANSACTION

On 4 July 2008, Guangzhou Honghui Real Estate Development Co., Ltd. (the "Vendor") (a wholly-owned subsidiary of the Company) and Mr. Lau Shu Yan, Julius (the "Purchaser") entered into a provisional sale and purchase agreement pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase a unit of a property owned by the Vendor and being developed in Li Wan District, Guangzhou Province, The People's Republic of China (the "PRC") at a consideration of RMB2,452,230.

The Purchaser is a director of the Company and is a connected person of the Company. The transaction therefore constituted a connected transaction of the Company under the Listing Rules. Further details of the transaction are disclosed in the Company's announcement dated 10 July 2008.

Report of the Directors

DETAILS OF PROPERTIES

The principal properties under development of the Group are as follows:

Location	Group interest	Stage of construction	Expected completion date	Expected use	Area
Eastern Place Phase V 787 Dongfeng East Road Yuexiu District Guangzhou Guangdong Province PRC	100%	Construction work in progress	2011	Residential/ commercial/ office	Total site area: 19,750 sq.m. Total gross floor area: approximately 101,000 sq.m.
West Point Zhongshan Qi Road Liwan District Guangzhou Guangdong Province PRC	100%	Construction work in progress	2009	Residential/ commercial	Total site area: 6,003 sq.m. Total gross floor area: approximately 64,000 sq.m.
Hai Zhu Plaza Chang Di Main Road Yuexiu District Guangzhou Guangdong Province PRC	100%	Resettlement of original inhabitants in progress	2012	Commercial/ office	Total site area: 8,427 sq.m. Total gross floor area: approximately 103,000 sq.m.
Donghua Dong Road Project Donghua Dong Road Yuexiu District Guangzhou Guangdong Province PRC	100%	Development under planning	2011	Residential	Total site area: 3,263 sq.m. Total gross floor area: approximately 10,000 sq.m.

Report of the Directors

DETAILS OF PROPERTIES (continued)

The principal properties under development of the Group are as follows: (continued)

Location	Group interest	Stage of construction	Expected completion date	Expected use	Area
Da Sha Tou Road/ Yuan Jiang Dong Road Project Da Sha Tou Road Yuexiu District Guangzhou Guangdong Province PRC	100%	Development under planning	2011	Commercial	Total site area: 2,210 sq.m. Total gross floor area: approximately 8,000 sq.m.
Guan Lu Road Project Guan Lu Road Yuexiu District Guangzhou Guangdong Province PRC	100%	Development under planning	2011	Residential	Total site area: 2,432 sq.m. Total gross floor area: approximately 14,000 sq.m.
Shanghai May Flower Plaza Sujiaxiang Zhabei District Shanghai PRC	95%	Construction work in progress	2010	Residential/ commercial/ office	Total site area: approximately 22,000 sq.m. Total gross floor area: approximately 114,500 sq.m.
Northgate Plaza II Tian Mu Road West Zhabei District Shanghai PRC	99%	Development under planning	2011	Commercial	Total site area: 4,115 sq.m. Total gross floor area: approximately 28,800 sq.m.
Zhongshan Palm Springs Caihong Planning Area Western District Zhongshan Guangdong Province PRC	100%	Construction work in progress	In phases from 2010 to 2013	Residential	Total site area: 236,648 sq.m. Total gross floor area: approximately 500,000 sq.m.

Report of the Directors

DETAILS OF PROPERTIES (continued)

The principal rental properties of the Group are as follows:

Location	Group interest	Tenure	Use	Gross floor area
Commercial podium and certain office and serviced apartment units of Hong Kong Plaza 282 & 283 Huaihaizhong Road Luwan District, Shanghai PRC	95%	The property is held for a term of 50 years, commencing on 16 September 1992 and expiring on 15 September 2042	Office/ shopping arcades/ serviced apartments	approximately 108,600 sq. m.
Certain units in the North Tower of Hong Kong Plaza 282 & 283 Huaihaizhong Road Luwan District, Shanghai PRC	100%	The property is held for a term of 50 years, commencing on 16 September 1992 and expiring on 15 September 2042	Serviced apartments	approximately 19,600 sq. m.
Northgate Plaza I 99 Tian Mu Road West Zhabei District, Shanghai PRC	96.6%	The property is held for a term of 50 years, commencing on 15 June 1993 and expiring on 14 June 2043	Office/ commercial	approximately 36,500 sq.m.
May Flower Plaza 68 Zhongshanwu Road Yuexiu District Guangzhou Guangdong Province PRC	77.5%	The property is held for a term of 40 years for commercial use and 50 years for other uses from the date of issue of the State-owned Land Use Right Certificate (14 October 1997)	Shopping arcades/ office	approximately 51,000 sq. m.

The principal completed properties for sale of the Group are as follows:

Location	Group interest	Gross floor area
Certain residential units in Regents Park, Phase II 88 Huichuan Road Changning District Shanghai PRC	95%	approximately 44,900 sq. m.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16, respectively, to the financial statements. Further details of the Group's investment properties are set out in this report under the section headed "Details of Properties" above.

PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 15 to the financial statements. Further details of the Group's properties under development are set out in this report under the section headed "Details of Properties" above.

FIXED RATE SENIOR NOTES

On 4 April 2007, the Group issued the 9.125% senior notes due 2014 (the "Senior Notes") with aggregate principal amount of US$200,000,000. Details of the Senior Notes are set out in note 27 to the financial statements.

SHARE CAPITAL

There was no movement in the Company's authorised and issued share capital during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 July 2008, the Company's reserves, including share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$3,935,424,000 (2007: HK$4,168,293,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$2,228,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated results and assets, liabilities and minority interests of the Group for each of the last five years, as extracted from the audited financial statements of the Group 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	**868,001**	792,420	703,352	402,863	630,204
Profit before tax	**625,236**	572,546	310,358	458,695	22,423
Tax	**(376,733)**	(64,272)	(164,098)	(140,868)	11,029
Profit for the year	**248,503**	508,274	146,260	317,827	33,452
Attributable to:					
Equity holders of the Company	**206,005**	470,351	132,745	246,197	36,006
Minority interests	**42,498**	37,923	13,515	71,630	(2,554)
	248,503	508,274	146,260	317,827	33,452

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	As at 31 July				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment and prepaid land lease payment	**681,253**	675,199	672,054	631,117	639,451
Investment properties	**5,136,200**	3,673,600	3,189,300	3,081,300	1,971,400
Properties under development	**3,265,072**	2,107,681	1,937,211	1,349,596	1,881,878
Goodwill/(negative goodwill)	**4,561**	4,561	4,561	—	(8,807)
Interests in associates	**328,149**	1,057,982	770,917	658,058	645,401
Long term deposits	**—**	25,904	—	—	—
Available-for-sale investments	**—**	—	13,464	—	—
Pledged time deposits	**—**	118,914	—	—	—
Pledged bank balances	**—**	—	—	—	10,262
Current assets	**2,944,450**	2,759,746	1,414,223	699,265	724,103
TOTAL ASSETS	**12,359,685**	10,423,587	8,001,730	6,419,336	5,863,688
Current liabilities	**(1,580,093)**	(1,619,599)	(881,338)	(785,953)	(435,009)
Long term rental deposits received	**(22,059)**	(17,101)	(21,931)	(23,257)	(14,147)
Non-current interest-bearing bank loans, secured	**(624,430)**	(123,343)	(753,859)	(732,538)	(1,093,593)
Promissory note	**(167,000)**	(167,000)	(167,000)	—	—
Fixed rate senior notes	**(1,518,319)**	(1,513,431)	—	—	—
Derivative financial instruments	**(185,462)**	(72,859)	—	—	—
Advances from a substantial shareholder	**(53,284)**	(48,273)	(45,542)	(44,795)	—
Deferred tax liabilities	**(892,360)**	(593,692)	(627,752)	(431,030)	(299,394)
TOTAL LIABILITIES	**(5,043,007)**	(4,155,298)	(2,497,422)	(2,017,573)	(1,842,143)
	7,316,678	6,268,289	5,504,308	4,401,763	4,021,545
Minority interests	**(407,456)**	(312,306)	(258,473)	(219,162)	(160,028)
	6,909,222	5,955,983	5,245,835	4,182,601	3,861,517

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers was 4% of the Group's total turnover. During the year, the Group's purchases from its five largest suppliers accounted for approximately 19% of the Group's total purchases, while the largest supplier accounted for approximately 10% of the Group's 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 suppliers.

DISCLOSURE PURSUANT TO RULE 13.21 OF CHAPTER 13 OF THE LISTING RULES

Loans agreements for certain bank facilities of certain subsidiaries of the Group (the "Subsidiaries") impose specific performance obligations on LSG, a substantial shareholder of the Company, and Lai Sun Development Company Limited ("LSD"), an investee company of LSG.

Pursuant to the covenants of the loan agreements dated 15 February 2005 and 20 December 2007, the Company and the Subsidiaries shall procure that (i) LSG and LSD shall together hold not less than 35% of the total issued share capital of the Company at all times throughout the terms of the facilities, (ii) LSG and/or LSD will remain as the single largest shareholder of the Company, and (iii) LSG will maintain management control of the Company.

The outstanding loan balances of these facilities as at the balance sheet date amounted to approximately HK$796 million, with the last instalment repayment falling due in 2012.

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 of the Company as at the date of this report, the Company has maintained the prescribed public float 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 36 to 39 of this Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Report of the Directors

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming 2008 Annual General 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 following deviations from code provisions 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 was appointed for a specific term. However, all directors of the Company are subject to the retirement provisions in the Articles of Association of the Company which provide that the directors for the time being shall retire from office by rotation once every three years since their last election at each annual general meeting and a retiring director shall be eligible for re-election.

Code Provision E.1.2

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 of Practice for Securities Transactions by Directors and Designated Employees (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 of directors of the Company (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 Executive Committee, Audit Committee, and Remuneration Committee. Specific responsibilities have been delegated to the above committees.

(3) BOARD OF DIRECTORS (continued)

(3.2) The Board comprises ten executive directors, namely Mr. Lam Kin Ngok, Peter (Chairman), Mr. Lam Kin Ming (Deputy Chairman), Mr. Lam Kin Hong, Matthew (Executive Deputy Chairman), Mr. Lam Hau Yin, Lester (Chief Executive Officer), Madam U Po Chu, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven, Miss Leung Churk Yin, Jeanny, Mr. Cheung Sum, Sam and Mr. Cheng Shin How; one non-executive Director, Mr. Lim Ming Yan (alternate director: Mr. Leow Juan Thong, Jason) and three independent non-executive directors, namely Mr. Wong Yee Sui, Andrew, Mr. Lam Bing Kwan and Mr. Ku Moon Lun.

(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:

	No. of Board Meetings	
Directors	**Held**	**Attended**
Executive Directors		
Lam Kin Ngok, Peter *(Chairman)*	4	3
Lam Kin Ming *(Deputy Chairman)*	4	2
Lam Kin Hong, Matthew *(Executive Deputy Chairman)*	4	2
Lam Hau Yin, Lester *(Chief Executive Officer)*	4	4
U Po Chu	4	0
Lau Shu Yan, Julius	4	3
Tam Kin Man, Kraven	4	4
Leung Churk Yin, Jeanny*	4	4
Cheung Sum, Sam	4	4
Cheng Shin How	4	4
Non-executive Directors		
Lim Ming Yan (alternate : Cheong Kwok Mun#)	4	3
Independent Non-executive Directors		
Wong Yee Sui, Andrew	4	4
Lam Bing Kwan	4	4
Ku Moon Lun	4	4

* *appointed during the year*

\# *Mr. Leow Juan Thong, Jason was appointed an alternate director to Mr. Lim Ming Yan in place of Mr. Cheong Kwok Mun with effect from 5 November 2008.*

(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.

Corporate Governance Report

(3) BOARD OF DIRECTORS (continued)

(3.5) Mr. Lam Kin Ngok, Peter is the son of Madam U Po Chu and the father of Mr. Lam Hau Yin, Lester. Mr. Lam Kin Hong, Matthew is the younger brother of Mr. Lam Kin Ming and Mr. Lam Kin Ngok, Peter.

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. Lam Hau Yin, Lester acted as 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 was appointed for a specific term.

(6) REMUNERATION OF DIRECTORS

(6.1) The Board established on 18 November 2005 a Remuneration Committee, which currently comprises three independent non-executive directors, namely Mr. Lam Bing Kwan (Chairman), Mr. Wong Yee Sui, Andrew, Mr. Ku Moon Lun and a non-executive director, Mr. Lim Ming Yan.

(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' fees, salaries, allowances, bonuses, share options, benefits in kind and pension rights, 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. Messrs. Lam Bing Kwan, Wong Yee Sui, Andrew, Ku Moon Lun and Cheong Kwok Mun (alternate to Mr. Lim Ming Yan) attended the meeting.

(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.

Corporate Governance Report

(8) AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit and non-audit services provided to the Company and its subsidiaries by the auditors of the Company, Ernst & Young, amounted to HK$1,970,000 and HK$60,000 respectively. The non-audit services mainly consist of review and other reporting services.

(9) AUDIT COMMITTEE

(9.1) The Board established on 31 March 2000 an Audit Committee, which currently comprises two independent non-executive directors, namely Messrs. Wong Yee Sui, Andrew (Chairman) and Lam Bing Kwan and a non-executive director, Mr. Lim Ming Yan.

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

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

(9.2) The Audit Committee held two meetings during the year under review. All members of the Audit Committee, namely Messrs. Wong Yee Sui, Andrew, Lam Bing Kwan and Lim Ming Yan, attended all the meetings.

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

(10) FINANCIAL REPORTING

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

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

(11) INTERNAL CONTROL

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

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Lai Fung Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Lai Fung Holdings Limited set out on pages 42 to 129, 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 disclosure requirements of 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, 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 disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, 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	5	**868,001**	792,420
Cost of sales		**(245,164)**	(367,111)
Gross profit		**622,837**	425,309
Other income and gains	5	**114,994**	108,559
Selling expenses		**(32,118)**	(11,812)
Administrative expenses		**(134,644)**	(105,956)
Other operating expenses, net		**(208,052)**	(24,185)
Fair value gain on investment properties	16	**398,515**	193,837
PROFIT FROM OPERATING ACTIVITIES	7	**761,532**	585,752
Finance costs	6	**(151,911)**	(107,542)
Share of profits of associates		**1,483**	81,706
Write-back of provision for amounts due from associates		**14,132**	12,630
PROFIT BEFORE TAX		**625,236**	572,546
Tax	10	**(376,733)**	(64,272)
PROFIT FOR THE YEAR		**248,503**	508,274
ATTRIBUTABLE TO:			
Equity holders of the Company	11	**206,005**	470,351
Minority interests		**42,498**	37,923
		248,503	508,274
DIVIDENDS	12		
Proposed final		**32,192**	32,192
EARNINGS PER SHARE	13		
Basic		**2.56 cents**	5.84 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 July 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**675,325**	669,668
Properties under development	15	**3,265,072**	2,107,681
Investment properties	16	**5,136,200**	3,673,600
Prepaid land lease payments	17	**5,928**	5,531
Goodwill	18	**4,561**	4,561
Interests in associates	20	**328,149**	1,057,982
Long term deposits	21	**—**	25,904
Pledged time deposits	22	**—**	118,914
Total non-current assets		**9,415,235**	7,663,841
CURRENT ASSETS			
Properties under development	15	**163,265**	390,209
Completed properties for sale		**507,385**	10,591
Debtors, deposits and prepayments	21	**221,756**	106,415
Pledged and restricted time deposits and bank balances	22	**381,075**	321,160
Cash and cash equivalents	22	**1,670,969**	1,931,371
Total current assets		**2,944,450**	2,759,746
CURRENT LIABILITIES			
Creditors and accruals	23	**540,122**	455,480
Deposits received and deferred income		**45,779**	17,729
Rental deposits received		**30,500**	20,700
Interest-bearing bank loans, secured	24	**509,417**	894,265
Tax payable		**454,275**	231,425
Total current liabilities		**1,580,093**	1,619,599
NET CURRENT ASSETS		**1,364,357**	1,140,147
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,779,592**	8,803,988
NON-CURRENT LIABILITIES			
Long term rental deposits received		**22,059**	17,101
Interest-bearing bank loans, secured	24	**624,430**	123,343
Promissory note	25	**167,000**	167,000
Advances from a substantial shareholder	26	**53,284**	48,273
Fixed rate senior notes	27	**1,518,319**	1,513,431
Derivative financial instruments	28	**185,462**	72,859
Deferred tax liabilities	29	**892,360**	593,692
Total non-current liabilities		**3,462,914**	2,535,699
		7,316,678	6,268,289

Consolidated Balance Sheet

31 July 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	30	**804,796**	804,796
Share premium account		**3,876,668**	3,876,668
Asset revaluation reserve		**68,959**	—
Share option reserve		**3,549**	1,842
Hedge reserve		**5,719**	(41,780)
Exchange fluctuation reserve		**1,091,720**	431,398
Capital reserve		**(457)**	(457)
Retained earnings		**1,026,076**	851,324
Proposed final dividends	12	**32,192**	32,192
		6,909,222	5,955,983
Minority interests		**407,456**	312,306
		7,316,678	6,268,289

Lam Kin Ngok, Peter
Director

Lam Hau Yin, Lester
Director

Consolidated Statement of Changes in Equity

Year ended 31 July 2008

		Attributable to equity holders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Investment revaluation reserve HK$'000	Asset revaluation reserve HK$'000	Share option reserve HK$'000	Hedge reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Proposed final dividends HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
As at 1 August 2006		804,796	3,876,668	(1,456)	–	–	–	145,071	(457)	413,165	8,048	5,245,835	258,473	5,504,308
Change in fair value of available-for-sale investments		–	–	2,258	–	–	–	–	–	–	–	2,258	–	2,258
Net loss on cash flow hedges	28	–	–	–	–	–	(41,780)	–	–	–	–	(41,780)	–	(41,780)
Exchange realignment:														
Subsidiaries		–	–	–	–	–	–	260,851	–	–	–	260,851	15,910	276,761
Associates		–	–	–	–	–	–	25,476	–	–	–	25,476	–	25,476
Total income and expense recognised directly in equity		–	–	2,258	–	–	(41,780)	286,327	–	–	–	246,805	15,910	262,715
Profit for the year		–	–	–	–	–	–	–	–	470,351	–	470,351	37,923	508,274
Total income and expense for the year		–	–	2,258	–	–	(41,780)	286,327	–	470,351	–	717,156	53,833	770,989
Disposal of available-for-sale investments	5	–	–	(802)	–	–	–	–	–	–	–	(802)	–	(802)
Equity-settled share option arrangements		–	–	–	–	1,842	–	–	–	–	–	1,842	–	1,842
Final 2006 dividends paid		–	–	–	–	–	–	–	–	–	(8,048)	(8,048)	–	(8,048)
Proposed final 2007 dividends	12	–	–	–	–	–	–	–	–	(32,192)	32,192	–	–	–
As at 31 July 2007 and 1 August 2007		804,796	3,876,668	–	–	1,842	(41,780)	431,398	(457)	851,324	32,192	5,955,983	312,306	6,268,289

Consolidated Statement of Changes in Equity

Year ended 31 July 2008

		Attributable to equity holders of the Company												
		Issued capital	Share premium account	Investment revaluation reserve	Asset revaluation reserve	Share option reserve	Hedge reserve	Exchange fluctuation reserve	Capital reserve	Retained earnings	Proposed final dividends	Sub-total	Minority interests	Total
	Notes	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 July 2007 and 1 August 2007		804,796	3,876,668	—	—	1,842	(41,780)	431,398	(457)	851,324	32,192	5,955,983	312,306	6,268,289
Net gain on cash flow hedges	28	—	—	—	—	—	47,499	—	—	—	—	47,499	—	47,499
Exchange realignment:														
Subsidiaries		—	—	—	—	—	—	619,353	—	—	—	619,353	34,746	654,099
Associates		—	—	—	—	—	—	43,296	—	—	—	43,296	—	43,296
Total income and expense recognised directly in equity		—	—	—	—	—	47,499	662,649	—	—	—	710,148	34,746	744,894
Profit for the year		—	—	—	—	—	—	—	—	206,005	—	206,005	42,498	248,503
Total income and expense for the year		—	—	—	—	—	47,499	662,649	—	206,005	—	916,153	77,244	993,397
Release of reserve upon disposal of a subsidiary		—	—	—	—	—	—	(2,327)	—	—	—	(2,327)	—	(2,327)
Release of reserve upon lapse of share options		—	—	—	—	(939)	—	—	—	939	—	—	—	—
Acquisition of subsidiaries		—	—	—	68,959	—	—	—	—	—	—	68,959	14,329	83,288
Disposal of a partial interest in a subsidiary		—	—	—	—	—	—	—	—	—	—	—	3,577	3,577
Equity-settled share option arrangements		—	—	—	—	2,646	—	—	—	—	—	2,646	—	2,646
Final 2007 dividends paid	12	—	—	—	—	—	—	—	—	—	(32,192)	(32,192)	—	(32,192)
Proposed final 2008 dividends	12	—	—	—	—	—	—	—	—	(32,192)	32,192	—	—	—
As at 31 July 2008		804,796	3,876,668	—	68,959	3,549	5,719	1,091,720	(457)	1,026,076	32,192	6,909,222	407,456	7,316,678

Consolidated Cash Flow Statement

Year ended 31 July 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**625,236**	572,546
Adjustments for:			
Fair value gain on investment properties		**(398,515)**	(193,837)
Finance costs	6	**151,911**	107,542
Share of profits of associates		**(1,483)**	(81,706)
Write-back of provision for amounts due from associates		**(14,132)**	(12,630)
Interest income	5	**(44,811)**	(43,327)
Net gain on disposals of interests in subsidiaries	7	**(5,930)**	—
Loss on disposal of a partial interest in a subsidiary	7	**67**	—
Gain on disposal of available-for-sale investments	5	**—**	(802)
Depreciation	7	**24,665**	23,953
Amortisation of prepaid land lease payments	7	**168**	156
Foreign exchange differences, net	7	**114,639**	7,995
Impairment of properties under development	7	**99,561**	—
Impairment of a long term deposit	7	**11,934**	—
Excess over the cost of a business combination	7	**(29,671)**	—
Loss on disposal of items of property, plant and equipment	7	**406**	368
Equity-settled share option expense	7	**2,646**	1,842
		536,691	382,100
Decrease in completed properties for sale		**81,412**	325,397
Increase in debtors, deposits and prepayments		**(124,444)**	(1,005)
Increase/(decrease) in creditors and accruals, deposits received and deferred income and short term rental deposits received		**161,505**	(311,413)
Increase/(decrease) in long term rental deposits received		**4,958**	(4,830)
Cash generated from operations		**660,122**	390,249
Mainland China taxes paid, net		**(67,097)**	(52,925)
Net cash inflow from operating activities		**593,025**	337,324
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**42,368**	43,316
Purchases of items of property, plant and equipment		**(4,582)**	(13,171)
Additions to properties under development		**(876,767)**	(240,341)
Proceeds from disposal of available-for-sale investments		**—**	15,722
Acquisition of subsidiaries	33	**(390,879)**	(268,193)
Proceeds from disposal of interests in subsidiaries	34	**442,066**	—
Advances of loans to associates		**(21,752)**	(167,242)
Increase in long term deposits		**—**	(25,904)
Decrease/(increase) in pledged and restricted time deposits and bank balances		**58,999**	(232,336)
Net cash outflow from investing activities		**(750,547)**	(888,149)

Consolidated Cash Flow Statement

Year ended 31 July 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of fixed rate senior notes, net of issue expenses	27	—	1,511,809
New bank loans		**228,180**	224,289
Repayment of bank loans		**(151,324)**	(85,802)
Interest paid		**(203,667)**	(75,963)
Dividends paid		**(32,192)**	(8,048)
Net cash inflow/(outflow) from financing activities		**(159,003)**	1,566,285
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(316,525)**	1,015,460
Cash and cash equivalents at beginning of year		**1,931,371**	899,125
Effect of foreign exchange rate changes, net		**56,123**	16,786
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,670,969**	1,931,371
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged and non-restricted cash and bank balances	22	**732,073**	640,121
Non-pledged time deposits with original maturity of less than three months when acquired	22	**938,896**	1,291,250
		1,670,969	1,931,371

Balance Sheet

31 July 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	**5,828,405**	5,523,468
CURRENT ASSETS			
Deposits and prepayments	21	**11,381**	12,923
Cash and cash equivalents	22	**871,440**	1,286,151
Total current assets		**882,821**	1,299,074
CURRENT LIABILITIES			
Creditors and accruals	23	**68,033**	63,971
NET CURRENT ASSETS		**814,788**	1,235,103
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,643,193**	6,758,571
NON-CURRENT LIABILITIES			
Promissory note	25	**167,000**	167,000
Fixed rate senior notes	27	**1,518,319**	1,513,431
Derivative financial instruments	28	**185,462**	72,859
Total non-current liabilities		**1,870,781**	1,753,290
		4,772,412	5,005,281
EQUITY			
Issued capital	30	**804,796**	804,796
Reserves	32(b)	**3,935,424**	4,168,293
Proposed final dividends	12	**32,192**	32,192
		4,772,412	5,005,281

Lam Kin Ngok, Peter
Director

Lam Hau Yin, Lester
Director

Notes to Financial Statements

31 July 2008

1. CORPORATE INFORMATION

Lai Fung Holdings Limited is a limited liability company incorporated in the Cayman Islands.

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

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

2.1 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 July 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HKFRSs

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 effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

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

(a) 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.

(b) 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 41 to the financial statements.

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

Those amendments permit 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. The amendments to HKAS 39 and HKFRS 7 have had no effect on these financial statements.

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2.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

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

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

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

The Group has adopted this interpretation as of 1 January 2008, 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 previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

(g) 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. The Group expects that the adoption of this interpretation will not have any significant impact on the Group's financial statements as it is consistent with the Group's current accounting policy.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
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[5]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 January 2008

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture; or

(b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

Associates

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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. The Group performs its annual impairment test of goodwill as at 31 July.

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

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

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

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3 "Business Combinations", such goodwill remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

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

Revaluation amounts arising in a business combination achieved in stages

When a business combination involves more than one exchange transactions, the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each exchange transaction. Any adjustment to those fair values relating to previously held interests of the Group is a revaluation and will be dealt with in the asset revaluation reserve initially and shall be accounted for as such.

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 completed properties for sale, deferred tax assets, 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 including owner-operated serviced apartments, other than investment properties and properties under development, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Notes to Financial Statements

31 July 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, as 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 in respect of which construction work and development have been completed and 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 as 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.

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties under development

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

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

Completed properties for sale

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

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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” 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.

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31 July 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation as 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 and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

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

When the fair value of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) 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 as at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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 and other receivables, 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 debtors 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.

Available-for-sale financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including creditors and accruals, interest-bearing bank loans, promissory note, advances from a substantial shareholder, and fixed rate senior notes, 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.

Financial guarantee contracts

Financial guarantee contracts under the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

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31 July 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as cross currency swaps to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair values of cross currency swap agreements are estimated at the amounts that the Group would receive or pay to terminate the agreements as at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the swap counterparties.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedges. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

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 which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value as 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 as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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, associates and interests in joint ventures, 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 as 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 as 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 as 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.

Dividend income derived from the Company's Mainland China subsidiaries is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "PRC").

Mainland China land appreciation tax ("LAT")

LAT is levied at prevailing progressive rates on the appreciation of the land value, being the proceeds from sales of properties less deductible costs.

Revenue recognition

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

(a) from the sale of properties, upon the establishment of a binding contract in respect of the sale of properties, and on the attainment of the relevant completion certificates by the government authorities concerned, whichever is later;

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

(c) service fee income is recognised when services have been 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes formula, further details of which are set out in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions as 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes

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

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

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. All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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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 as 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 as 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 and associates operating in Mainland China 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 and associates operating in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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:

(i) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(ii) Impairment of non-financial assets

The Group has to exercise judgement in determining whether a non-financial asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) 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 (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(iii) Income tax

Deferred tax is provided using the liability method, on all temporary differences as 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 amounts of deferred tax assets and related financial models and budgets are reviewed as 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 carried forward tax losses, the asset balance will be reduced and charged to the income statement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as 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.

(i) Estimation of fair value of investment properties and recoverable amounts of properties under development and completed properties for sale

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, the Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (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 principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(ii) Estimation of total budgeted costs and costs to completion for properties under development

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

(iii) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that is used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

(iv) Impairment of non-financial assets

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

(v) Fair values of derivative financial instruments

The fair values of cross currency swap agreements are the estimated amounts that the Group would receive or pay to terminate the swap agreements as at the balance sheet date, taking into account current market conditions and the current creditworthiness of the swap counterparties.

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4. SEGMENT INFORMATION

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

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

(a) the property development segment engages in the development of properties in Mainland China; and

(b) the property investment segment invests in serviced apartments, as well as commercial and office buildings in Mainland China for their rental income potential.

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

4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 July 2008 and 2007:

Group

	Property development		Property investment		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	613,841	571,347	254,160	221,073	868,001	792,420
Other revenue	886	3,868	58,902	50,621	59,788	54,489
Total	614,727	575,215	313,062	271,694	927,789	846,909
Segment results	287,447	243,999	570,630	341,628	858,077	585,627
Unallocated gains					55,206	54,070
Unallocated expenses, net					(151,751)	(53,945)
Profit from operating activities					761,532	585,752
Finance costs					(151,911)	(107,542)
Share of profits of associates	(193)	—	1,676	81,706	1,483	81,706
Write-back of provision for amounts due from associates	—	—	14,132	12,630	14,132	12,630
Profit before tax					625,236	572,546
Tax					(376,733)	(64,272)
Profit for the year					248,503	508,274
Assets and liabilities						
Segment assets	1,523,202	1,707,890	8,390,414	5,217,882	9,913,616	6,925,772
Interests in associates	328,149	—	—	1,057,982	328,149	1,057,982
Unallocated assets					2,117,920	2,439,833
Total assets					12,359,685	10,423,587
Segment liabilities	174,082	173,273	242,549	159,254	416,631	332,527
Unallocated liabilities					4,626,376	3,822,771
Total liabilities					5,043,007	4,155,298

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4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	Property development		Property investment		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information						
Depreciation	**519**	822	**21,104**	20,223	**21,623**	21,045
Corporate and other unallocated amounts					**3,042**	2,908
					24,665	23,953
Capital expenditure	**655**	486	**312,862**	113,125	**313,517**	113,611
Corporate and other unallocated amounts					**1,820**	6,711
					315,337	120,322
Fair value gain on investment properties	**—**	—	**398,515**	193,837	**398,515**	193,837
Impairment recognised in the consolidated income statement	**99,561**	—	**11,934**	—	**111,495**	—

5. TURNOVER, OTHER INCOME AND GAINS

The Group's turnover represents proceeds from the sale of properties and rental income from serviced apartments and investment properties.

An analysis of the Group's turnover, other income and gains is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Turnover:		
Sale of properties	**613,841**	571,347
Rental income from serviced apartments and investment properties	**254,160**	221,073
	868,001	792,420
Other income and gains:		
Management fee income	**54,908**	48,411
Interest income from:		
Bank deposits	**44,461**	42,653
An associate	**350**	674
Gain on disposal of available-for-sale investments	**—**	802
Others	**15,275**	16,019
	114,994	108,559

Notes to Financial Statements

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6. FINANCE COSTS

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Interest on:			
Bank loans wholly repayable within five years		**72,836**	62,527
Bank loan repayable beyond five years		**899**	1,294
Promissory note		**10,557**	13,053
Fixed rate senior notes, net *		**112,028**	33,189
Amortisation of fixed rate senior notes	27	**4,888**	1,622
Bank charges		**4,833**	2,649
		206,041	114,334
Less: Interest capitalised in properties under development	15	**(54,130)**	(6,792)
Total finance costs		**151,911**	107,542

To the extent funds are borrowed generally, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average of the borrowing costs as the interest capitalisation rate. The applicable capitalisation rate for the year was 6.45% per annum (2007: Nil).

* *Net of interest saving of HK$30,322,000 (2007: HK$12,705,000) arising from the cash flow hedges (note 28).*

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2008 HK$'000	2007 HK$'000
Cost of completed properties sold		**194,275**	318,230
Outgoings in respect of rental income		**50,889**	48,881
Total cost of sales		**245,164**	367,111
Depreciation#	14	**24,665**	23,953
Amortisation of prepaid land lease payments		**11,046**	8,003
Capitalised in properties under development	15	**(10,878)**	(7,847)
	17	**168**	156
Minimum lease payments under operating leases in respect of land and buildings		**5,786**	5,800
Auditors' remuneration		**1,970**	1,740
Employee benefits expense (including directors' remuneration – note 8):			
Wages and salaries		**87,743**	64,073
Equity-settled share option expense		**2,646**	1,842
Pension scheme contributions *		**374**	497
		90,763	66,412
Capitalised in properties under development		**(47,670)**	(31,267)
		43,093	35,145
Foreign exchange differences, net **		**114,639**	7,995
Loss on disposal of items of property, plant and equipment		**406**	368
Excess over the cost of a business combination **	33	**(29,671)**	—
Net gain on disposals of interests in subsidiaries **	34	**(5,930)**	—
Loss on disposal of a partial interest in a subsidiary **		**67**	—
Impairment of properties under development **	15	**99,561**	—
Impairment of a long term deposit **		**11,934**	—

\# *The depreciation charge of HK$15,056,000 (2007: HK$14,732,000) for serviced apartments is included in "Other operating expenses, net" on the face of the consolidated income statement.*

* *As at 31 July 2008, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in future years (2007: Nil).*

** *These expenses/(incomes) are included in "Other operating expenses, net" on the face of the consolidated income statement. Foreign exchange differences included an exchange loss of HK$160,102,000 (2007: HK$31,079,000) arising from the cash flow hedges (note 28).*

Notes to Financial Statements

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8. DIRECTORS' REMUNERATION

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

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**270**	252
Other emoluments:		
Salaries, allowances and benefits in kind	**14,571**	9,971
Employee share option benefits	**1,894**	1,159
Pension scheme contributions	**75**	61
	16,540	11,191
	16,810	11,443
Capitalised in properties under development	**(11,853)**	(7,697)
	4,957	3,746

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options was determined as at the date of grant and then recognised in the income statement over the vesting period. The amount recognised in the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2008	2007
	HK$'000	HK$'000
Wong Yee Sui, Andrew	**90**	60
Lam Bing Kwan	**90**	60
Ku Moon Lun	**90**	62
	270	182

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

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8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008					
Executive directors:					
Lam Kin Ngok, Peter	—	2,000	—	—	2,000
Lam Kin Ming	—	1,140	—	—	1,140
Lam Kin Hong, Matthew	—	1,140	—	57	1,197
Lam Hau Yin, Lester	—	1,180	—	—	1,180
U Po Chu	—	4,175	—	—	4,175
Lau Shu Yan, Julius	—	—	—	—	—
Tam Kin Man, Kraven	—	—	857	—	857
Leung Churk Yin, Jeanny	—	—	—	—	—
Cheung Sum, Sam	—	1,636	1,037	6	2,679
Cheng Shin How	—	3,300	—	12	3,312
	—	14,571	1,894	75	16,540
Non-executive directors:					
Lim Ming Yan	—	—	—	—	—
Cheong Kwok Mun	—	—	—	—	—
	—	—	—	—	—
Total	—	14,571	1,894	75	16,540

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8. DIRECTORS' REMUNERATION (continued)

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

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Executive directors:					
Lam Kin Ngok, Peter	—	2,000	—	—	2,000
Lam Kin Ming	—	1,140	—	—	1,140
Lam Kin Hong, Matthew	—	1,140	—	57	1,197
Lam Hau Yin, Lester	—	841	—	—	841
U Po Chu	—	3,980	—	—	3,980
Lee Po On	52	—	—	—	52
Lau Shu Yan, Julius	—	—	—	—	—
Tam Kin Man, Kraven	—	—	1,159	—	1,159
Cheung Sum, Sam	—	269	—	1	270
Cheng Shin How	—	550	—	2	552
	52	9,920	1,159	60	11,191
Non-executive directors:					
Lam Kin Ko, Stewart	18	51	—	1	70
Lim Ming Yan	—	—	—	—	—
Cheong Kwok Mun	—	—	—	—	—
Lui Chong Chee	—	—	—	—	—
	18	51	—	1	70
Total	70	9,971	1,159	61	11,261

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: two) non-director, highest paid employee are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,801**	3,159
Bonuses	**75**	333
Employee share option benefits	**—**	198
Pension scheme contributions	**12**	25
	1,888	3,715
Capitalised in properties under development	**(1,637)**	(2,919)
	251	796

The number of 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$2,000,001 to HK$2,500,000	**—**	1
	1	2

During the year ended 31 July 2007, share options were granted to one non-director, highest paid employee in respect of his services to the Group, further details of which are set out in note 31 to the financial statements. The fair value of such options was determined as at the date of grant and then recognised in the income statement over the vesting period. The amount recognised in the prior year is included in the above non-director, highest paid employees' remuneration disclosures.

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10. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2007: Nil). Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Current – Mainland China			
Corporate income tax – charge for the year		**85,509**	79,125
LAT		**167,076**	71,693
Deferred	29	**124,148**	(86,546)
Total tax charge for the year		**376,733**	64,272

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

	Group	
	2008	2007
	HK$'000	HK$'000
Profit before tax	**625,236**	572,546
Tax at the statutory tax rate	**156,309**	188,940
Adjustments for tax rates for other jurisdictions	**19,340**	11,015
Effect of decrease in tax rates on current tax	**2,530**	—
Effect of decrease in tax rates on deferred tax	**—**	(160,649)
Provision for LAT	**167,076**	71,693
Tax effect of provision for LAT	**(41,769)**	(23,659)
Profits attributable to associates	**(371)**	(26,963)
Income not subject to tax	**(14,741)**	(12,751)
Expenses not deductible for tax	**88,359**	19,554
Tax losses recognised as deferred tax asset	**—**	(2,908)
Tax charge at the Group's effective rate	**376,733**	64,272

10. TAX (continued)

The 5th Session of the 10th National People's Congress approved the Corporate Income Tax Law of the PRC (the "New Corporate Income Tax Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 26 December 2007, which has been effective from 1 January 2008. According to the New Corporate Income Tax Law, the income tax rates for both domestic and foreign investment enterprises have been unified at 25% effective from 1 January 2008. The Group's subsidiaries located in Mainland China were subject to corporate income tax at a rate of 25% commenced on 1 January 2008.

Pursuant to the New Corporate Income Tax Law, withholding tax will be levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdictions of the foreign investors. On 22 February 2008, Caishui 2008 No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from the withholding tax. As at 31 July 2008, there was no material unrecognised deferred tax liability for withholding tax that would be payable on the unremitted earnings of the Group's Mainland China subsidiaries.

Tax indemnity

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

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

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

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11. LOSS 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 loss of HK$250,822,000 (2007: HK$33,155,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2008	2007
	HK$'000	HK$'000
Proposed final – 0.4 HK cent (2007: 0.4 HK cent) per ordinary share	**32,192**	32,192

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts was based on the profit for the year attributable to equity holders of the Company of HK$206,005,000 (2007: HK$470,351,000), and the weighted average number of 8,047,956,478 (2007: 8,047,956,478) ordinary shares in issue during the year.

All share options of the Company had an anti-dilutive effect on the basic earnings per share amount for both 2008 and 2007. Therefore, the diluted earnings per share amounts for both years had not been disclosed.

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Leasehold land and buildings HK$'000	Serviced apartments HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost:								
As at 1 August 2006		96,719	691,663	15,987	18,671	8,472	3,202	834,714
Additions		—	—	5,746	6,732	183	510	13,171
Disposals		—	—	—	(2,941)	(495)	(198)	(3,634)
Acquisition of subsidiaries	33	—	—	—	95	297	87	479
Exchange realignment		3,046	12,989	873	1,055	343	143	18,449
As at 31 July 2007 and 1 August 2007		99,765	704,652	22,606	23,612	8,800	3,744	863,179
Additions		—	—	37	1,765	2,175	605	4,582
Disposals		—	—	(274)	(206)	(468)	(11)	(959)
Acquisition of subsidiaries	33	—	—	—	973	519	105	1,597
Exchange realignment		5,592	23,842	1,893	2,016	666	315	34,324
As at 31 July 2008		**105,357**	**728,494**	**24,262**	**28,160**	**11,692**	**4,758**	**902,723**
Accumulated depreciation:								
As at 1 August 2006		7,517	137,081	2,310	14,738	4,383	2,002	168,031
Acquisition of subsidiaries	33	—	—	—	84	291	67	442
Depreciation provided during the year	7	2,369	14,732	2,526	2,800	1,134	392	23,953
Disposals		—	—	—	(2,640)	(446)	(180)	(3,266)
Exchange realignment		468	2,584	143	897	164	95	4,351
As at 31 July 2007 and 1 August 2007		10,354	154,397	4,979	15,879	5,526	2,376	193,511
Acquisition of subsidiaries	33	—	—	—	325	467	77	869
Depreciation provided during the year	7	2,482	15,056	2,615	2,864	1,160	488	24,665
Disposals		—	—	—	(125)	(420)	(8)	(553)
Exchange realignment		1,020	5,202	460	1,619	399	206	8,906
As at 31 July 2008		**13,856**	**174,655**	**8,054**	**20,562**	**7,132**	**3,139**	**227,398**
Net book value:								
As at 31 July 2008		**91,501**	**553,839**	**16,208**	**7,598**	**4,560**	**1,619**	**675,325**
As at 31 July 2007		89,411	550,255	17,627	7,733	3,274	1,368	669,668

Notes to Financial Statements

31 July 2008

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and building of HK$47,892,000 (2007: HK$44,885,000) and serviced apartments of HK$553,839,000 (2007: HK$550,255,000) are situated in Mainland China and were held under medium term leases as at 31 July 2008. The remaining leasehold land and building of HK$43,609,000 (2007: HK$44,526,000) is situated in Hong Kong and was held under a long term lease.

As at 31 July 2008, certain leasehold land and building and serviced apartments with carrying values of HK$43,609,000 (2007: HK$44,526,000) and HK$553,839,000 (2007: HK$550,255,000), respectively, were pledged to banks to secure banking facilities granted to the Group as further set out in note 24 to the financial statements.

15. PROPERTIES UNDER DEVELOPMENT

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Carrying amount as at 1 August		**2,497,890**	2,123,454
Interest capitalised	6	**54,130**	6,792
Other additions		**1,004,785**	259,452
Transfer to completed properties for sale		**(692,254)**	(289,316)
Transfer to investment properties	16	**—**	(93,257)
Acquisition of subsidiaries	33	**385,261**	348,400
Impairment	7	**(99,561)**	—
Exchange realignment		**278,086**	142,365
Carrying amount as at 31 July		**3,428,337**	2,497,890
Portion classified as current assets		**(163,265)**	(390,209)
Non-current portion		**3,265,072**	2,107,681

An impairment loss of approximately HK$99,561,000 was recognised in the consolidated income statement for the year ended 31 July 2008 which represented the write-down of certain parcels of land in Guangzhou, Mainland China, to their recoverable amounts, which were determined with reference to the fair values from independent valuations.

Notes to Financial Statements

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15. PROPERTIES UNDER DEVELOPMENT (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Long term leases	**1,389,969**	1,711,766
Medium term leases	**2,038,368**	786,124
	3,428,337	2,497,890

As at 31 July 2008, certain properties under development with an aggregate carrying value of HK$601,105,000 (2007: HK$858,364,000) were pledged to banks to secure banking facilities granted to the Group as further set out in note 24 to the financial statements.

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

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Carrying amount as at 1 August		**376,820**	318,051
Additions		**360,525**	29,476
Amortised during the year	7	**(10,878)**	(7,847)
Transfer to completed properties for sale		**(9,207)**	(11,367)
Acquisition of subsidiaries		**8,327**	29,687
Exchange realignment		**38,932**	18,820
Carrying amount as at 31 July		**764,519**	376,820

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16. INVESTMENT PROPERTIES

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Carrying amount as at 1 August		**3,673,600**	3,189,300
Acquisition of subsidiaries	33(a)	**630,000**	—
Transfer from properties under development	15	**—**	93,257
Net gain from a fair value adjustment		**398,515**	193,837
Exchange realignment		**434,085**	197,206
Carrying amount as at 31 July		**5,136,200**	3,673,600

All investment properties are situated in Mainland China and were held under the following lease terms:

	Group	
	2008	2007
	HK$'000	HK$'000
Long term leases	**137,200**	122,600
Medium term leases	**4,999,000**	3,551,000
	5,136,200	3,673,600

As at 31 July 2008, the investment properties were revalued by Knight Frank Petty Limited, independent professionally qualified valuers, on an open market value, existing use basis. The investment properties were leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

As at 31 July 2008, certain investment properties with an aggregate carrying value of HK$4,313,000,000 (2007: HK$3,551,000,000) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 24 to the financial statements.

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17. PREPAID LAND LEASE PAYMENTS

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Carrying amount as at 1 August		**5,531**	5,371
Amortised during the year	7	**(168)**	(156)
Exchange realignment		**565**	316
Carrying amount as at 31 July		**5,928**	5,531

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

18. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising on the acquisition of a subsidiary, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Cost and carrying amount as at 1 August and 31 July	**4,561**	4,561

Notes to Financial Statements

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19. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**144,270**	144,270
Due from subsidiaries	**5,715,784**	5,406,425
Due to subsidiaries	**(31,649)**	(27,227)
	5,828,405	5,523,468

The amounts due from/to subsidiaries were unsecured, interest-free and had no fixed terms of repayment, except for an amount of HK$231,941,000 (2007: HK$215,237,000) due from a subsidiary which bore interest at LIBOR plus 3% per annum (2007: LIBOR plus 3% per annum). The carrying amounts of these amounts due from/to subsidiaries approximated to their fair values.

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 capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Assetop Asia Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Canvex Limited	Hong Kong	HK$2	—	100	Property investment
Frank Light Development Limited	Hong Kong	HK$19,999,999	—	100	Investment holding
Gentle Code Limited	Hong Kong	HK$1	—	100	Investment holding
Gentle Holdings Limited	Hong Kong	HK$1	—	100	Investment holding
Goldthorpe Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK$2	—	77.5	Investment holding
Guangzhou Gentle Code Real Estate Company Limited @ *	PRC	US$19,560,000	—	100	Property development and investment

19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Gentle Real Estate Company Limited @ *	PRC	US$15,180,000	—	100	Property development and investment
Guangzhou Grand Wealth Properties Ltd. *	PRC	HK$138,000,000	—	100**	Property development and investment
Guangzhou Guang Bird Property Development Ltd. *	PRC	US$22,160,000	—	100**	Property development and investment
Guangzhou Jadepress Real Estate Company Limited @ *	PRC	US$12,600,000	—	100	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd. *	PRC	HK$168,000,000	—	77.5**	Property investment
Guangzhou Honghui Real Estate Development Co., Ltd. *	PRC	RMB79,733,004	—	100**	Property development and investment
Jadepress Limited	Hong Kong	HK$1	—	100	Investment holding
Lai Fung Company Limited	Hong Kong	HK$20	100	—	Investment holding
Nicebird Company Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai Hu Xin Real Estate Development Co., Ltd. # *	PRC	US$21,000,000	—	95	Property development and investment
Shanghai Li Xing Real Estate Development Co., Ltd. # *	PRC	US$36,000,000	—	95	Property investment
Sunlite Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Topsider International Limited	British Virgin Islands/ Hong Kong	US$1	100	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai HKP Property Management Limited # *	PRC	US$150,000	—	100	Property management

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19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Wa Yee Real Estate Development Co., Ltd. # *	PRC	US$10,000,000	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Property investment
Manful Concept Limited	Hong Kong	HK$2	—	100	Investment holding
Zhongshan Bao Li Properties Development Co., Ltd. @ *	PRC	HK$200,000,000	—	100	Property development and investment
South Hill Limited	Hong Kong	HK$1	—	100	Property investment
Maniway Hong Kong Limited	Hong Kong	HK$2	—	100	Investment holding
Hankey Development Limited	Hong Kong	HK$10,000	—	100	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd. #	PRC	US$10,800,000	—	96.6	Property investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd. #	PRC	US$12,000,000	—	99	Property development and investment

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

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

\# *Registered as equity joint ventures under the laws of the PRC.*

@ *Registered as wholly-foreign-owned enterprises under the laws of the PRC.*

19. INTERESTS IN SUBSIDIARIES (continued)

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

As at 31 July 2008, shares in certain subsidiaries were pledged to secure banking facilities granted to the Group (note 24).

As at 31 July 2008, certain subsidiaries had jointly and severally guaranteed the obligations of the Company under the Notes (as defined and disclosed in note 27).

20. INTERESTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets, other than goodwill	**43,854**	149,439
Due from associates	**284,295**	981,884
	328,149	1,131,323
Provision for impairment	**—**	(73,341)
	328,149	1,057,982

The movements in the provision for impairment of interests in associates are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
As at 1 August	**73,341**	85,971
Reversal of impairment losses	**(14,132)**	(12,630)
Write-back upon disposal of an associate	**(59,209)**	—
As at 31 July	**—**	73,341

As at 31 July 2008, the amounts due from associates were unsecured, interest-free and had no fixed terms of repayment.

As at 31 July 2007, except for an amount of HK$12,403,000 due from an associate which bore interest at the rate of 5.67% per annum, the amounts due from associates were unsecured, interest-free and had no fixed terms of repayment.

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20. INTERESTS IN ASSOCIATES (continued)

The carrying amounts of these advances approximated to their fair values.

As at 31 July 2007, "Share of net assets, other than goodwill" included captialised interest of HK$72,095,000 on borrowings which were previously obtained for the Group's investments in certain associates engaged in property development.

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

Name	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Beautiwin Limited	Hong Kong	Ordinary	50	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd. #	PRC	—*	50	Property development and investment

This associate was not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

The following table illustrates the summarised financial information of the Group's associates, in aggregate, as extracted from their management accounts and financial statements:

	2008 HK$'000	2007 HK$'000
Assets	**664,922**	2,223,100
Liabilities	**(577,211)**	(2,532,373)
Turnover	**—**	30,772
Profit/(loss)	**(386)**	164,542

21. DEBTORS, DEPOSITS AND PREPAYMENTS

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. Serviced apartments charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the Group, the settlement of which is in accordance with the respective agreements. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables of the Group were interest-free.

The carrying amounts of the Group's and the Company's trade receivables, other receivables and deposits approximated to their fair values as at the balance sheet date. The Group and the Company did not hold any collateral or other credit enhancements over these balances.

An ageing analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables, net				
Within one month	**163,312**	25,940	**—**	—
One to two months	**388**	5,821	**—**	—
Two to three months	**420**	893	**—**	—
Three to six months	**—**	246	**—**	—
	164,120	32,900	**—**	—
Other receivables, deposits and prepayments	**57,636**	99,419	**11,381**	12,923
	221,756	132,319	**11,381**	12,923
Portion classified as current assets	**(221,756)**	(106,415)	**(11,381)**	(12,923)
Non-current portion	**—**	25,904	**—**	—

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

		Group		Company	
		2008	2007	**2008**	2007
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**942,742**	910,171	**22,678**	35,392
Less: Pledged and restricted bank balances					
Pledged for bank facilities *		**(1,098)**	(4,025)	**—**	—
Pledged for bank loans	24	**(95,183)**	(25,839)	**—**	—
Restricted bank balances **		**(114,388)**	(240,186)	**—**	—
Non-pledged and non-restricted cash and bank balances		**732,073**	640,121	**22,678**	35,392
Time deposits		**1,109,302**	1,461,274	**848,762**	1,250,759
Less: Pledged time deposits					
Pledged for bank loans	24	**(118,120)**	(118,914)	**—**	—
Pledged for bank facilities		**(52,286)**	(51,110)	**—**	—
Non-pledged time deposits		**938,896**	1,291,250	**848,762**	1,250,759
Cash and cash equivalents		**1,670,969**	1,931,371	**871,440**	1,286,151

* *The balances were pledged to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group.*

** *In accordance with relevant laws and regulations imposed by the government authorities concerned, proceeds from the pre-sale of certain properties are required to be deposited into a designated bank account and restricted to be used in the relevant project construction. Such restriction will be uplifted upon the attainment of relevant ownership certificates issued by the relevant authorities. As at 31 July 2008, the balance of such deposits amounted to HK$29,993,000 (2007: HK$149,253,000).*

In accordance with relevant laws and regulations imposed by the government authorities concerned, estimated resettlement costs for the removal of existing residents on a site for development are required to be deposited into a designated bank account. Such deposits are restricted to be used as compensation to the existing owners and residents and such restriction will be uplifted upon completion of the resettlement project. As at 31 July 2008, the balance of such deposits amounted to HK$84,395,000 (2007: HK$90,933,000).

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

As at the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$764,606,000 (2007: HK$540,567,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group was permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Short term time deposits were made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and pledged deposits were deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged and restricted time deposits and bank balances approximated to their fair values.

23. CREDITORS AND ACCRUALS

An ageing analysis of the trade payables as at the balance sheet date, based on payment due date, is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables				
Within one month	**25,400**	12,966	**—**	—
One to three months	**655**	934	**—**	—
Over three months	**—**	5,328	**—**	—
	26,055	19,228	**—**	—
Accruals and other payables	**514,067**	436,252	**68,033**	63,971
Financial liability – the Put Option (Note)	**—**	—	**—**	—
Total	**540,122**	455,480	**68,033**	63,971

Trade payables of the Group were interest-free and were settled pursuant to the terms of the relevant agreements. The carrying amounts of trade payables and other payables approximated to their fair values as at the balance sheet date.

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31 July 2008

23. CREDITORS AND ACCRUALS (continued)

Note:

Hua Xiong Holdings Pte. Ltd. ("Hua Xiong") and the Company entered into a deed of put option (the "Put Option Deed") upon completion of the disposal of the Group's 50% equity interest in and shareholder's loan to Beautiwin Limited ("Beautiwin") in 2006, a then wholly-owned subsidiary of Welitron Profits Limited ("Welitron") (the "Transaction"). Pursuant to the Put Option Deed, Hua Xiong is entitled to exercise a put option (the "Put Option"), during the period commenced on the completion date of the Transaction (the "Completion") and ending on the date when Guangzhou Beautiwin Real Estate Development Co. Ltd. ("Guangzhou Beautiwin"), a subsidiary of Beautiwin, receives the land use right certificate (the "Land Use Right Certificate") in relation to the whole of a piece of land located at Niu Yan Gang, Heng Sha Village, Shi Jing Town, Bai Yun District, Guangzhou, Mainland China (the "Land"), to require Welitron to purchase from Hua Xiong the 50% equity interest in and all loans Beautiwin and/or Guangzhou Beautiwin (the "Beautiwin Group") owed to Hua Xiong subject to the occurrence of any of the following events:

(a) the termination of a land use rights grant contract dated 30 September 1997 entered into between the Guangzhou State Land Bureau and Beautiwin in relation to the Land (the "Land Use Rights Grant Contract");

(b) the forfeiture of any amount paid by the Beautiwin Group to the Guangzhou State Land Bureau (or such equivalent authority) pursuant to the Land Use Rights Grant Contract; and/or

(c) any imposition of late payment penalties as a result of the failure by the Beautiwin Group to pay the land premium in accordance with the Land Use Rights Grant Contract.

The consideration payable by Welitron to Hua Xiong under the Put Option Deed in the event that Hua Xiong exercises the Put Option (the "Put Option Consideration") shall be the aggregate of:

(a) an amount equivalent to the consideration of the Transaction of RMB102,757,000 (approximately HK$98,575,000) (the "Consideration") together with the interest accrued thereon at the prevailing People's Bank of China interest rate for Renminbi; and

(b) all outstanding amounts owed by the Beautiwin Group to Hua Xiong and/or its affiliates arising from the loans provided to the Beautiwin Group after the Completion together with the interest accrued thereon at the relevant agreed contractual rate.

Having considered (i) the arrangement of the Put Option; (ii) the possibility and timing of the Put Option become exercisable by Hua Xiong; (iii) the uncertainty over the amount of the consideration payable by Welitron to Hua Xiong in the event that Hua Xiong exercises the Put Option, the directors are of the opinion that the estimated fair value of the Put Option cannot be reliably measured. The determination of the estimated fair value of the Put Option depends on, in particular, the amount of loans that would be provided to the Beautiwin Group by Hua Xiong after the Completion and up to the date when Hua Xiong exercises the Put Option, the estimated fair value of the Put Option Consideration and the possibility and timing of occurrence of certain events (including when Beautiwin Group receive the Land Use Right Certificate).

The variability in the range of the estimates for determining the fair value of the Put Option is significant and cannot be reasonably assessed. Therefore, the Group stated the Put Option at cost of nil at the balance sheet date (2007: Nil).

Subsequent to the balance sheet date, Guangzhou Beautiwin received the Land Use Right Certificate in relation to the Land and the Put Option lapsed accordingly.

24. INTEREST-BEARING BANK LOANS, SECURED

Group

	2008			2007		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Secured bank loans:						
Current	**3.00-8.13**	**2009**	**509,417**	5.50-7.82	2008	894,265
Non-current	**3.00-3.46**	**2010-2016**	**624,430**	5.50-7.02	2009-2016	123,343
			1,133,847			1,017,608
Analysed into:						
Within one year			**509,417**			894,265
In the second year			**6,162**			103,359
In the third to fifth years, inclusive			**611,142**			9,633
Beyond five years			**7,126**			10,351
			1,133,847			1,017,608

All of the bank loans were floating rate instruments, and their carrying amounts approximated to their fair values.

Bank loans of the Group as at the balance sheet date were secured by:

(a) mortgages over certain leasehold land and building and serviced apartments of the Group, with carrying values of HK$43,609,000 (2007: HK$44,526,000) and HK$553,839,000 (2007: HK$550,255,000) (note 14) respectively as at the balance sheet date;

(b) mortgages over certain properties under development of the Group with an aggregate carrying value of HK$601,105,000 (2007: HK$858,364,000) (note 15) as at the balance sheet date;

(c) mortgages over certain investment properties of the Group with an aggregate carrying value of HK$4,313,000,000 (2007: HK$3,551,000,000) (note 16) as at the balance sheet date;

(d) charges over the entire share capital of certain subsidiaries attributable to the Group (note 19);

(e) mortgage over certain completed properties for sale of the Group with an aggregate carrying value of HK$501,775,000 (2007: Nil);

(f) charges over time deposits and bank balances of the Group of HK$118,120,000 (2007: HK$118,914,000) (note 22) and HK$95,183,000 (2007: HK$25,839,000) (note 22) respectively as at the balance sheet date; and

(g) certain corporate guarantees provided by the Company (note 35).

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25. PROMISSORY NOTE

	Effective interest rate (%)		Group and Company	
	2008	2007	**2008** HK$'000	2007 HK$'000
Issued to a substantial shareholder	**5.25**	7.75	**167,000**	167,000

The promissory note was unsecured, bears interest at the prevailing Hong Kong Dollar Prime Rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and is wholly repayable on 29 May 2010. The carrying amount of the promissory note approximated to its fair value.

26. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER

On 31 July 2008, the executor of Mr. Lim Por Yen's estate, at the request of the Group, confirmed to the Group that no demand for settlement of the advances would be made within one year from the balance sheet date. The advances were unsecured and interest-free.

The carrying amounts of the advances approximated to their fair values.

27. FIXED RATE SENIOR NOTES

On 4 April 2007, the Company issued US$200,000,000 (equivalent to approximately HK$1,560,000,000) of 9.125% fixed rate senior notes (the "Notes"), which will mature on 4 April 2014 for bullet repayment. The Notes bear interest from 4 April 2007 and are payable semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 October 2007 (each, an "Interest Payment Date"). The Notes are listed on the Singapore Exchange Securities Trading Limited (the "Singapore Exchange").

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

At any time, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date, and the greater of (1) 1% of the principal amount of the Notes and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount of the Notes, plus all required remaining scheduled interest payments due on the Notes through 4 April 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the semi-annual equivalent yield in maturity of the comparable United States Treasury security, plus 100 basis points, over (B) the principal amount of the Notes on such redemption date. In addition, at any time, prior to 4 April 2010, the Company may redeem up to 35% of the principal amount of the Notes using the proceeds from certain equity offerings at a redemption price of 109.125% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

The early redemption option of the Notes is regarded as an embedded derivative not closely related to the host contract (the Notes). Accordingly, it should be separately accounted for as a financial instrument at fair value through profit or loss. The directors considered that the fair value of the early redemption option was insignificant on initial recognition and as at the balance sheet date.

27. FIXED RATE SENIOR NOTES (continued)

The Notes recognised in the balance sheets are calculated as follows:

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Carrying amount as at 1 August	**1,513,431**	—
Additions:		
Face value of the Notes	**—**	1,560,000
Issue expenses	**—**	(48,191)
Fair value as at date of issue	**—**	1,511,809
Amortisation of the Notes (note 6)	**4,888**	1,622
Carrying amount as at 31 July	**1,518,319**	1,513,431
Fair value of the Notes as at 31 July *	**1,341,600**	1,484,925

* *The fair value was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at that date.*

In connection with the Notes, the Company entered into the CCS (as defined in note 28) with financial institutions, which had effectively converted the Notes into fixed rate RMB-denominated loans. Taking into account the CCS, the effective interest rate of the Notes is 7.02% per annum. Details of the CCS are set out in note 28 to the financial statements.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Financial liabilities - Cross currency swap agreements (the "CCS")	**185,462**	72,859

The carrying amounts of the CCS were the same as their fair values. The fair values of the CCS were the estimated amounts that the Company would receive or pay to terminate the CCS as at the balance sheet date, taking into account the current market conditions and the current creditworthiness of the swap counterparties.

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28. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedges

On 4 April 2007, the Company entered into the CCS with financial institutions with an aggregate notional amount of US$200,000,000 to hedge the currency risk arising from the Notes as detailed in note 27 to the financial statements.

Pursuant to the terms of the CCS, the Company receives interest payments semi-annually at a fixed rate of 9.125% per annum on the aggregate notional amount of US$200,000,000 during the period from 4 April 2007 to 4 April 2014 on each Interest Payment Date of the Notes (as defined in note 27), and makes interest payments semi-annually at a fixed rate of 6.45% per annum on the aggregate notional amount of RMB1,545,100,000 (being the RMB equivalent amount of US$200,000,000, translated at a contracted exchange rate of RMB7.7255 to US$1) during the period from 4 April 2007 to 4 April 2014 on each Interest Payment Date. On 4 April 2014, the Company receives the aggregate notional amount of US$200,000,000 and pays the aggregate notional amount of RMB1,545,100,000.

The terms of the CCS had been negotiated to match with the terms of the Notes, including the principal and notional amounts, the USD interest rate, the effective date, each interest payment date and the final maturity date. A net gain of HK$47,499,000 (2007: net loss of HK$41,780,000) on the cash flow hedges are included in the hedge reserve as follows:

	Group and Company	
	2008	2007
	HK$'000	HK$'000
Total fair value losses included in the hedge reserve	**112,603**	72,859
Fair value losses transferred from the hedge reserve and recognised in income statement (note 7)	**(160,102)**	(31,079)
Net loss/(gain) on cash flow hedges	**(47,499)**	41,780

29. DEFERRED TAX

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

Group

	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of properties HK$'000	Losses available for offset against future taxable profits HK$'000	Total HK$'000
As at 1 August 2006	149,987	165,289	312,476	—	627,752
Deferred tax credited to the income statement during the year (note 10)	(27,836)	(27,352)	(28,450)	(2,908)	(86,546)
Acquisition of subsidiaries (note 33(b))	—	32,000	—	—	32,000
Exchange realignment	299	10,416	9,771	—	20,486
As at 31 July 2007 and 1 August 2007	122,450	180,353	293,797	(2,908)	593,692
Deferred tax charged/(credited) to the income statement during the year (note 10)	27,538	(6,152)	99,628	3,134	124,148
Acquisition of subsidiaries (note 33(a))	15,432	46,437	68,166	—	130,035
Exchange realignment	2,867	20,735	21,109	(226)	44,485
As at 31 July 2008	**168,287**	**241,373**	**482,700**	**—**	**892,360**

The Company had no material unprovided deferred tax in respect of the year and as at the balance sheet date (2007: Nil).

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30. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
12,000,000,000 (2007: 12,000,000,000) ordinary shares of HK$0.10 each	**1,200,000**	1,200,000
Issued and fully paid:		
8,047,956,478 (2007: 8,047,956,478) ordinary shares of HK$0.10 each	**804,796**	804,796

Share options

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

31. SHARE OPTION SCHEME

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

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

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

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

31. SHARE OPTION SCHEME (continued)

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

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

The following share options were outstanding under the Share Option Scheme during the year:

		Number of share options					
Name or category of participants	Date of grant of share options*	As at 1 August 2007	Granted during the year	Lapsed during the year	As at 31 July 2008	Exercise period of share options	Exercise price of share options** (per share)
Directors							
Tam Kin Man,	9/1/2007	10,000,000	—	(10,000,000)	—	1/1/2007-31/12/2007	HK$0.45
Kraven	9/1/2007	10,000,000	—	—	10,000,000	1/1/2008-31/12/2008	HK$0.55
	9/1/2007	10,000,000	—	—	10,000,000	1/1/2009-31/12/2009	HK$0.65
	9/1/2007	10,000,000	—	—	10,000,000	1/1/2010-31/12/2010	HK$0.75
Cheung Sum, Sam	8/8/2007	—	7,500,000	(7,500,000)	—	8/8/2007-31/7/2008	HK$0.50
	8/8/2007	—	7,500,000	—	7,500,000	1/8/2008-31/7/2009	HK$0.55
	8/8/2007	—	7,500,000	—	7,500,000	1/8/2009-31/7/2010	HK$0.60
	8/8/2007	—	7,500,000	—	7,500,000	1/8/2010-31/7/2011	HK$0.75
		40,000,000	30,000,000	(17,500,000)	52,500,000		
Other employees	9/1/2007	2,500,000	—	(2,500,000)	—	1/1/2007-31/12/2007	HK$0.45
(in aggregate)	9/1/2007	2,500,000	—	—	2,500,000	1/1/2008-31/12/2008	HK$0.55
	9/1/2007	5,000,000	—	—	5,000,000	1/1/2009-31/12/2009	HK$0.60
	9/1/2007	5,000,000	—	—	5,000,000	1/1/2010-31/12/2010	HK$0.65
	9/1/2007	5,000,000	—	—	5,000,000	1/1/2010-31/12/2010	HK$0.70
	9/1/2007	2,500,000	—	—	2,500,000	1/1/2008-31/12/2008	HK$0.40
	9/1/2007	2,500,000	—	—	2,500,000	1/1/2009-31/12/2009	HK$0.55
		25,000,000	—	(2,500,000)	22,500,000		
Total		65,000,000	30,000,000	(20,000,000)	75,000,000		

* *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

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

Notes to Financial Statements

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31. SHARE OPTION SCHEME (continued)

The closing price of the Company's shares immediately before the date of grant of share options granted during the year was HK$0.39. The fair value of the share options granted during the year was HK$2,303,000 (2007: HK$4,515,000), of which a share option expense of HK$1,037,000 (2007: HK$1,842,000) was recognised in the consolidated income statement during the year ended 31 July 2008.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes formula, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the formula used for the share options granted during the year ended 31 July 2008:

Dividend yield	0.25%
Expected volatility	48.52%
Risk-free interest rate	3.980% to 4.258%
Expected life of share option	1 to 4 years
Weighted average share price	HK$0.40

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

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

During the year, no share options were exercised or cancelled and 20,000,000 share options lapsed in accordance with the terms of the Share Option Scheme. As at 31 July 2008, the total number of 75,000,000 share options outstanding under the Share Option Scheme represented approximately 0.93% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 45 to 46 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Hedge reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 August 2006		3,876,668	—	—	(9,558)	406,468	4,273,578
Net loss on cash flow hedges	28	—	—	(41,780)	—	—	(41,780)
Loss for the year	11	—	—	—	—	(33,155)	(33,155)
Equity-settled share option arrangements		—	1,842	—	—	—	1,842
Proposed final 2007 dividends	12	—	—	—	—	(32,192)	(32,192)
As at 31 July 2007 and 1 August 2007		3,876,668	1,842	(41,780)	(9,558)	341,121	4,168,293
Net gain on cash flow hedges	28	—	—	47,499	—	—	47,499
Loss for the year	11	—	—	—	—	(250,822)	(250,822)
Equity-settled share option arrangements		—	2,646	—	—	—	2,646
Release of reserve upon lapse of share options		—	(939)	—	—	939	—
Proposed final 2008 dividends	12	—	—	—	—	(32,192)	(32,192)
As at 31 July 2008		**3,876,668**	**3,549**	**5,719**	**(9,558)**	**59,046**	**3,935,424**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained earnings should the related options lapse or be forfeited.

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33. BUSINESS COMBINATIONS

(a) On 29 October 2007, Nicetronic Investments Limited ("Nicetronic"), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Pilkington Investments Limited ("Pilkington"), an independent third party, whereby Nicetronic agreed to purchase the remaining 50% of the issued share capital of and the entire shareholder's loan advanced to Hankey Development Limited ("Hankey") from Pilkington for a cash consideration of HK$424,000,000 (the "Acquisition"). Hankey indirectly holds 96.6% and 99% interests in Zhabei Plaza I (Northgate Plaza I) and Zhabei Plaza II (Northgate Plaza II), respectively, located at Tian Mu Road West in the Zhabei District of Shanghai (collectively the "Hankey Group").

Before the Acquisition, Nicetronic already held 50% of the issued share capital of Hankey. The Acquisition was completed on 16 January 2008 and Hankey became an indirect wholly-owned subsidiary of the Company. The excess over the cost of a business combination of HK$29,671,000, representing the excess of the Group's interest in the fair value of the Hankey Group's net identifiable assets as at the date of the Acquisition over the consideration paid in relation to the Acquisition, was recognised as income and included in "Other operating expenses, net" on the face of the consolidated income statement. A circular dated 14 November 2007 was issued to the shareholders of the Company in respect of the Acquisition.

Notes to Financial Statements

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33. BUSINESS COMBINATIONS (continued)

(a) (continued)

The fair values of the identifiable assets and liabilities of the Hankey Group as at the date of acquisition and the corresponding carrying amounts immediately before the Acquisition are as follows:

	Notes	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Equipment	14	728	728
Properties under development	15	385,261	199,513
Investment properties	16	630,000	630,000
Debtors, deposits and prepayments		341	341
Cash and bank balances		33,708	33,708
Creditors and accruals		(11,042)	(11,042)
Deferred tax liabilities	29	(130,035)	(83,598)
Asset revaluation reserve		(68,959)	—
Minority interests		(14,329)	(13,632)
		825,673	756,018
Expenses incurred for the Acquisition		(587)	
Excess over the cost of a business combination recognised in the consolidated income statement	7	(29,671)	
		795,415	
Satisfied by:			
Cash		424,000	
Interests in associates		371,415	
		795,415	

Notes to Financial Statements

31 July 2008

33. BUSINESS COMBINATIONS (continued)

(a) (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the Hankey Group is as follows:

	HK$'000
Cash consideration	424,000
Expenses incurred for the Acquisition	587
Cash and bank balances acquired	(33,708)
Net outflow of cash and cash equivalents in respect of the acquisition of the Hankey Group	390,879

Since its acquisition, the Hankey Group contributed HK$9,797,000 to the Group's turnover and HK$19,185,000 to the consolidated profit for the year ended 31 July 2008.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit attributable to the Group for the year would have been HK$878,939,000 and HK$207,682,000, respectively.

33. BUSINESS COMBINATIONS (continued)

(b) In the prior year, the Group acquired a 100% equity interest in Frank Light Development Limited ("Frank Light") and the shareholders' loans owed by Frank Light with an aggregate amount of HK$216,936,000 for a total consideration of HK$292,300,000. Frank Light and its subsidiary, Guangzhou Honghui Real Estate Development Co., Ltd., (collectively the "Frank Light Group") engage in the property development and investment business.

The fair values of the identifiable assets and liabilities of the Frank Light Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Previous carrying amount** HK$'000
Equipment	14	37	37
Property under development	15	348,400	232,775
Cash and bank balances		979	979
Other current liabilities, net		(434)	(434)
Interest-bearing bank loans		(21,810)	(21,810)
Deferred tax liabilities	29	(32,000)	—
		295,172	211,547
Expenses incurred for the acquisition		(2,872)	
		292,300	
Satisfied by:			
Cash consideration paid		266,300	
Cash consideration payable two months after the completion of underlying properties of the Frank Light Group		26,000	
		292,300	

Notes to Financial Statements

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33. BUSINESS COMBINATIONS (continued)

(b) (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the Frank Light Group is as follows:

	HK$'000
Cash consideration	266,300
Expenses incurred for the acquisition	2,872
Cash and bank balances acquired	(979)
Net outflow of cash and cash equivalents in respect of the acquisition of the Frank Light Group	268,193

The underlying properties of the Frank Light Group acquired were in the development stage and no income or expense was incurred during the prior year. Had the combination taken place at the beginning of the prior year, the revenue from continuing operations of the Group and the profit of the Group for the prior year would not be materially different from those disclosed for that year.

34. DISPOSALS OF INTERESTS IN SUBSIDIARIES

(a) On 22 November 2007, Lai Fung Company Limited ("LFCL"), a wholly-owned subsidiary of the Company, and Right Rich Investments Limited ("Right Rich"), an independent third party, entered into a sale and purchase agreement (the "Agreement").

Pursuant to the Agreement, LFCL agreed to sell to Right Rich the entire issued share capital of and to assign to Right Rich the entire shareholder's loan Perfect Mark Worldwide Limited ("Perfect Mark"), a then wholly-owned subsidiary of LFCL, owed to LFCL at a cash consideration of HK$422,000,000 (the "Disposal").

Before the Disposal, Perfect Mark and Right Rich held 25% and 75% of the issued share capital of Besto Investments Limited ("Besto"), respectively. Besto holds property interests in Tianhe Entertainment Plaza and Cultural Entertainment Plaza in Guangzhou. The Disposal was completed on 18 January 2008. A loss on disposal of an interest in a subsidiary of HK$14,268,000 was recognised and included in "Other operating expenses, net" on the face of the consolidated income statement. A circular dated 12 December 2007 was issued to the shareholders of the Company in respect of the Disposal.

34. DISPOSAL OF INTERESTS IN SUBSIDIARIES (continued)

(a) (continued)

The net assets of Perfect Mark as at the date of disposal are as follows:

	HK$'000
Net assets disposed of:	
Interests in associates	438,463
Expenses incurred for the disposal	132
Exchange fluctuation reserve realised	(2,327)
Loss on disposal of an interest in a subsidiary (note 7)	(14,268)
	422,000
Satisfied by:	
Cash	422,000

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

	HK$'000
Cash consideration	422,000
Expenses incurred for the disposal	(132)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	421,868

(b) On 12 March 2008, Superview Group Limited ("Superview"), a wholly-owned subsidiary of the Company, and Pacific Alliance China Land Limited ("Pacific Alliance"), an independent third party, entered into two separate sale and purchase agreements (the "Agreements").

Pursuant to the Agreements, Superview agreed to sell to Pacific Alliance the entire issued share capital of Beagen Holdings Limited ("Beagen") and Gladtime Limited ("Gladtime"), the then wholly-owned subsidiaries of Superview, at a total cash consideration of USD2,800,000 (approximately HK$21,828,000) (the "Disposals").

Each of Beagen and Gladtime indirectly holds a 100% interest in a limited liability company registered in the PRC. The Disposals were completed on 20 March 2008. A gain on disposals of interests in subsidiaries of HK$20,198,000 was recognised and included in "Other operating expenses, net" on the face of the consolidated income statement.

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34. DISPOSAL OF INTERESTS IN SUBSIDIARIES (continued)

(b) (continued)

The net asset of Beagen and Gladtime as at the date of disposals is as follows

	HK$'000
Net asset disposed of	—
Expenses incurred for the disposals	1,630
Gain on disposals of interests in subsidiaries (note 7)	20,198
	21,828
Satisfied by:	
Cash	21,828

An analysis of the net inflow of cash and cash equivalents in respect of the disposals of Beagen and Gladtime is as follows:

	HK$'000
Cash consideration	21,828
Expenses incurred for the disposals	(1,630)
Net inflow of cash and cash equivalents in respect of the disposals of subsidiaries	20,198

35. CONTINGENT LIABILITIES

(a) As at the balance sheet date, contingent liabilities not provided for in the financial statements are as follows:

	Company	
	2008	2007
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**1,125,871**	1,156,398

As at 31 July 2008, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$795,663,000 (2007: HK$892,169,000).

35. CONTINGENT LIABILITIES (continued)

(b) (i) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant properties in case the end-buyers default in repayment of the mortgage loans. The Group's obligation has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers.

(ii) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of Regents Park Phase I. Pursuant to the terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with accrued interest owed by the defaulted end-buyers. The Group's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the Property Ownership Certificates for the relevant properties are issued or the end-buyers have fully repaid the mortgage loans, whichever is the earlier.

(iii) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of Eastern Place Phase I, II and III. Pursuant to the terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with the accrued interest owed by the defaulted end-buyers. Such obligation will be relinquished when the end-buyers have fully repaid the mortgage loans.

(iv) The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of Eastern Place Phase IV. Pursuant to the terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principals together with the accrued interest owed by the defaulted end-buyers. Such obligation will also be relinquished when the Property Ownership Certificates for the relevant properties are issued or the end-buyers have fully repaid the mortgage loans, whichever is the earlier.

It was not practical to determine the outstanding amount of the contingent liabilities of the Group and the Company in respect of the above guarantees as at the balance sheet date.

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36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased its properties under operating lease arrangements, with leases negotiated for terms ranging from one month to twenty years (2007: from one month to twenty years). The terms of the leases generally required the tenants to pay security deposits.

As at 31 July 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**150,927**	120,233
In the second to fifth years, inclusive	**170,331**	149,837
After five years	**26,220**	43,184
	347,478	313,254

(b) As lessee

The Group leased certain of its office premises under operating lease arrangements, with leases negotiated for terms of two years (2007: two years).

As at 31 July 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**750**	260
In the second to fifth years, inclusive	**312**	—
	1,062	260

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following capital commitments as at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for:		
Land lease payments, resettlement, compensation, construction costs and others	**351,530**	598,899
Authorised, but not contracted for:		
Resettlement, construction and renovation costs and others	**657,138**	—

As at 31 July 2007, the Group had a funding commitment to an associate amounting to HK$36,161,000.

As at the balance sheet date, the Company had no significant commitments.

38. PLEDGE OF ASSETS

Details of the Group's bank loans, which were secured by certain assets of the Group, are included in note 24 to the financial statements.

39. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Advertising fees paid to related companies	(i)	**(6,299)**	(2,099)
Marketing service fees paid to a related company	(ii)	**(2,120)**	—
Interest on the promissory note paid to a substantial shareholder	(iii)	**(10,557)**	(13,053)
Pre-sale of a residential unit to a director	(iv)	**2,799**	—

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39. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties (continued)

Notes:

(i) The related companies are subsidiaries of eSun Holdings Limited ("eSun"), which is significantly influenced by a member of key management personnel of the Company.

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

(ii) The related company is a subsidiary of LSD, which is significantly influenced by a member of key management personnel of the Company.

The terms of the marketing service fees were determined based on the contract entered into between the Group and the related company.

(iii) Interest is charged on a promissory note issued to Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company, at the prevailing Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong (note 25).

(iv) The terms of the pre-sale were determined based on the contract entered into between the Group and the director. The revenue in respect of the transaction will be recognised on the attainment of the relevant completion certificate issued by the government authorities. This transaction also constituted a connected transaction as defined in Chapter 14A of the Listing Rules.

(b) Other transactions with related parties

The terms of the promissory note payable to LSG is detailed in note 25 to the financial statements.

(c) Outstanding balances with related parties

Details of advances from a substantial shareholder of the Group are included in note 26 to the financial statements.

(d) Compensation of key management personnel of the Group

	2008	2007
	HK$'000	HK$'000
Short term employee benefits	**14,841**	10,223
Post-employment benefits	**75**	61
Share-based payments	**1,894**	1,159
Total compensation paid to key management personnel	**16,810**	11,443

Further details of directors' emoluments are included in note 8 to the financial statements.

Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

The Group's and the Company's financial assets as at 31 July 2008 and 2007 were categorised as loans and receivables.

Financial liabilities

Group

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition	Financial liabilities at amortised cost	Total
	HK$'000	HK$'000	HK$'000
2008			
Creditors and accruals	—	**377,419**	**377,419**
Deposits received and deferred income	—	**6,540**	**6,540**
Interest-bearing bank loans, secured	—	**1,133,847**	**1,133,847**
Promissory note	—	**167,000**	**167,000**
Advances from a substantial shareholder	—	**53,284**	**53,284**
Fixed rate senior notes	—	**1,518,319**	**1,518,319**
Derivative financial instruments*	**185,462**	—	**185,462**
	185,462	**3,256,409**	**3,441,871**
2007			
Creditors and accruals	—	339,359	339,359
Deposits received and deferred income	—	11,530	11,530
Interest-bearing bank loans, secured	—	1,017,608	1,017,608
Promissory note	—	167,000	167,000
Advances from a substantial shareholder	—	48,273	48,273
Fixed rate senior notes	—	1,513,431	1,513,431
Derivative financial instruments*	72,859	—	72,859
	72,859	3,097,201	3,170,060

Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities (continued)

Company

	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
2008			
Accruals	—	**54,192**	**54,192**
Promissory note	—	**167,000**	**167,000**
Fixed rate senior notes	—	**1,518,319**	**1,518,319**
Derivative financial instruments*	**185,462**	—	**185,462**
	185,462	**1,739,511**	**1,924,973**
2007			
Accruals	—	51,801	51,801
Promissory note	—	167,000	167,000
Fixed rate senior notes	—	1,513,431	1,513,431
Derivative financial instruments*	72,859	—	72,859
	72,859	1,732,232	1,805,091

* *The derivative financial instruments (the CCS, as defined in note 28) were initially recognised and subsequently remeasured at fair value. The effective portion of the fair value gain or loss on the CCS was recognised directly in equity. Details of the CCS are set out in note 28 to the financial statements.*

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, a promissory note, advances from a substantial shareholder, fixed rate senior notes, cash and bank balances and short-term time deposits. The main purpose of these financial instruments is to raise finance and to manage surplus funds of the Group.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk, credit risk and price risk. The directors of the Company formulate policies to manage the Group's exposure to these risks and meet periodically to review such policies. Generally, the Group introduce conservative strategies on its risk management. The Group do not hold or issue derivative financial instruments for trading purposes.

The policies are summarised as follows:

(a) Foreign currency risk

The Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"), United States Dollars ("USD") and Hong Kong Dollars ("HKD"). The Group is exposed to foreign currency risk arising from the exposure of HKD against USD and RMB, respectively. Considering that the exchange rate between HKD and USD is pegged, the Group believes that the corresponding exposure to foreign currency risk is nominal.

In relation to the fixed rate senior notes issued in the prior year, the Group had entered into cross currency swap agreements ("CCS") to convert the USD-denominated fixed rate senior notes into RMB-denominated fixed rate loans, details of which are set out in notes 27 and 28 to the financial statements. The arrangement under the CCS exposes the Group to foreign currency risk against RMB in relation to the senior notes. During the recent financial turmoil, USD has strengthened against RMB. However, the Group is taking the view that this may be a short term phenomenon and RMB may continue to appreciate against USD when the financial markets stabilise. In view of this, on 28 October 2008, the Company terminated the CCS with financial institutions. After the termination of the CCS, the Group does not have any derivative financial instruments or hedging instruments outstanding. At present, the Group does not intend to seek to hedge its exposure to foreign currency fluctuations. However, the Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

Notes to Financial Statements

31 July 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Foreign currency risk (continued)

The following table demonstrates the sensitivity as at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's post-tax profit and equity (due to changes in the fair value of monetary assets and liabilities).

		Group		Company	
	Change in rate	Impact on post-tax profit HK$'000	Impact on equity HK$'000	Impact on post-tax profit HK$'000	Impact on equity HK$'000
2008					
If USD weakens against RMB	**5%**	**(75,264)**	**(76,137)**	**(92,723)**	**(92,723)**
If USD strengthens against RMB	**5%**	**68,100**	**68,890**	**83,898**	**83,898**
2007					
If USD weakens against RMB	5%	(66,548)	(67,425)	(84,098)	(84,098)
If USD strengthens against RMB	5%	60,209	61,003	76,086	76,086

After the termination of the CCS on 28 October 2008, the foreign currency risk associated with the USD-denominated fixed rate senior notes and the CCS will no longer exist. Had the termination of the CCS was completed on 31 July 2008, the impact on the post-tax profit and equity of the Group and the Company in the case the USD weakens against RMB by 5% would have been improved by HK$92,723,000.

(b) Interest rate risk

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

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the post-tax profit (through the impact on floating rate borrowings and net of amount capitalised to properties under development) and the equity of the Group and the Company.

		Group		Company	
	Change in basis points	Impact on post-tax profit HK$'000	Impact on equity HK$'000	Impact on post-tax profit HK$'000	Impact on equity HK$'000
2008					
	+100	**(8,332)**	**(7,842)**	**(1,670)**	**(1,670)**
	-100	**8,332**	**7,842**	**1,670**	**1,670**
2007					
	+100	(8,206)	(7,755)	(1,670)	(1,670)
	-100	8,206	7,755	1,670	1,670

(c) Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its cash flow forecast. The cash flow forecast considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

Notes to Financial Statements

31 July 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

The maturity profile of the financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

	Less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2008				
Creditors and accruals	**377,419**	**—**	**—**	**377,419**
Deposits received and deferred income	**6,540**	**—**	**—**	**6,540**
Interest-bearing bank loans, secured	**552,318**	**691,900**	**7,405**	**1,251,623**
Promissory note	**8,768**	**174,306**	**—**	**183,074**
Advances from a substantial shareholder	**—**	**53,284**	**—**	**53,284**
Fixed rate senior notes	**142,350**	**569,400**	**1,667,949**	**2,379,699**
Derivative financial instruments	**(28,649)**	**(114,596)**	**181,081**	**37,836**
	1,058,746	**1,374,294**	**1,856,435**	**4,289,475**
2007				
Creditors and accruals	339,359	—	—	339,359
Deposits received and deferred income	11,530	—	—	11,530
Interest-bearing bank loans, secured	829,256	235,691	10,239	1,075,186
Promissory note	12,943	190,728	—	203,671
Advances from a substantial shareholder	—	48,273	—	48,273
Fixed rate senior notes	142,350	569,400	1,810,299	2,522,049
Derivative financial instruments	(39,343)	(157,372)	(32,175)	(228,890)
	1,296,095	886,720	1,788,363	3,971,178

Notes to Financial Statements

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

Company

	Less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2008				
Accruals	**54,192**	**—**	**—**	**54,192**
Promissory note	**8,768**	**174,306**	**—**	**183,074**
Fixed rate senior notes	**142,350**	**569,400**	**1,667,949**	**2,379,699**
Derivative financial instruments	**(28,649)**	**(114,596)**	**181,081**	**37,836**
	176,661	**629,110**	**1,849,030**	**2,654,801**
2007				
Accruals	51,801	—	—	51,801
Promissory note	12,943	190,728	—	203,671
Fixed rate senior notes	142,350	569,400	1,810,299	2,522,049
Derivative financial instruments	(39,343)	(157,372)	(32,175)	(228,890)
	167,751	602,756	1,778,124	2,548,631

(d) Credit risk

The Group maintains various credit policies for different business operations as described in note 21. In addition, trade receivable balances are being closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprised cash and cash equivalents, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

(e) Price risk

Price risk arises from the implementation of macro-economic policies of the Central and Municipal governments and the environment and development of the property market in China. The Group closely monitor the property market conditions and take appropriate measures if necessary.

Notes to Financial Statements

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manage its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 July 2008 and 31 July 2007.

The Group monitor capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank loans, fixed rate senior notes, a promissory note and advances from a substantial shareholder, less pledged and restricted time deposits and bank balances and cash and cash equivalents. Capital includes equity attributable to equity holders of the Company, less the hedge reserve. The gearing ratios as at the balance sheet dates are as follows:

Group

	2008	2007
	HK$'000	HK$'000
Interest-bearing bank loans, secured	**1,133,847**	1,017,608
Fixed rate senior notes	**1,518,319**	1,513,431
Promissory note	**167,000**	167,000
Advances from a substantial shareholder	**53,284**	48,273
Less: Pledged and restricted time deposits and bank balances	**(381,075)**	(440,074)
Cash and cash equivalents	**(1,670,969)**	(1,931,371)
Net debt	**820,406**	374,867
Equity attributable to equity holders of the Company	**6,909,222**	5,955,983
Less: Hedge reserve	**(5,719)**	41,780
Adjusted capital	**6,903,503**	5,997,763
Adjusted capital and net debt	**7,723,909**	6,372,630
Gearing ratio	**10.6%**	5.9%

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42. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 28 October 2008, the Company terminated the CCS (as defined in note 28) and received approximately HK$65,130,000 as proceeds from the termination (the "Termination"). Together with the reversal of fair value loss on the cash flow hedges arising from the CCS and the balance of related hedge reserve as at 31 July 2008, total gains of approximately HK$256,311,000 is expected to be recognised in the consolidated income statement for the six months ending 31 January 2009. The accounting treatments of the Termination are subject to review and confirmation by the auditors for the audit of the final results of the Group for the year ending 31 July 2009.

After the Termination, the Group does not have any derivative financial instruments or hedging instruments outstanding. Further details of the Termination are disclosed in the Company's announcement dated 28 October 2008.

43. 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 10:45 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 declare a final dividend;

3. To re-elect retiring directors and to fix the directors' remuneration;

4. To appoint auditors and to authorise the directors to fix their remuneration;

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

   (A) "**THAT**:

   (a) subject to paragraph (b) of this Resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK$0.10 each in the share capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% 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

   (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest 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 or the Articles of Association of the Company to be held."

Notice of Annual General Meeting

(B) "**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 powers 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 powers 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 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 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

(d) for the purposes of this Resolution,

"Relevant Period" shall have the same meaning assigned to it under paragraph (c) of the Ordinary Resolution No. 5(A) in the Notice convening this Meeting; and

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

Notice of Annual General Meeting

(C) "**THAT** subject to the passing of the Ordinary Resolutions No. 5(A) and 5(B) in the Notice convening this Meeting, the general mandate granted to the directors and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by addition thereto of an amount representing the aggregate nominal amount of shares in the share capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution."

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 7 November 2008

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 share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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) The Register of Members of the Company will be closed from 18 December 2008 to 23 December 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on 17 December 2008.

(4) Concerning item 3 of this Notice, pursuant to Article 116 of the Company's Articles of Association, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Mr. Lam Hau Yin, Lester, Mr. Lau Shu Yan, Julius and Mr. Tam Kin Man, Kraven 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 Annual Report 2007-2008 of the Company.

Mr. Wong Yee Sui, Andrew, who also retires by rotation pursuant to Article 116 of the Company's Articles of Association, will not be offering himself for re-election.

(5) A circular containing details regarding Ordinary Resolutions No. 5(A) to 5(C) will be sent to members together with the Company's Annual Report 2007-2008.