LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

Annual Report 2004-2005

Contents

Lai Fung Holdings Limited

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Stock code on Hong Kong Stock Exchange: 1125

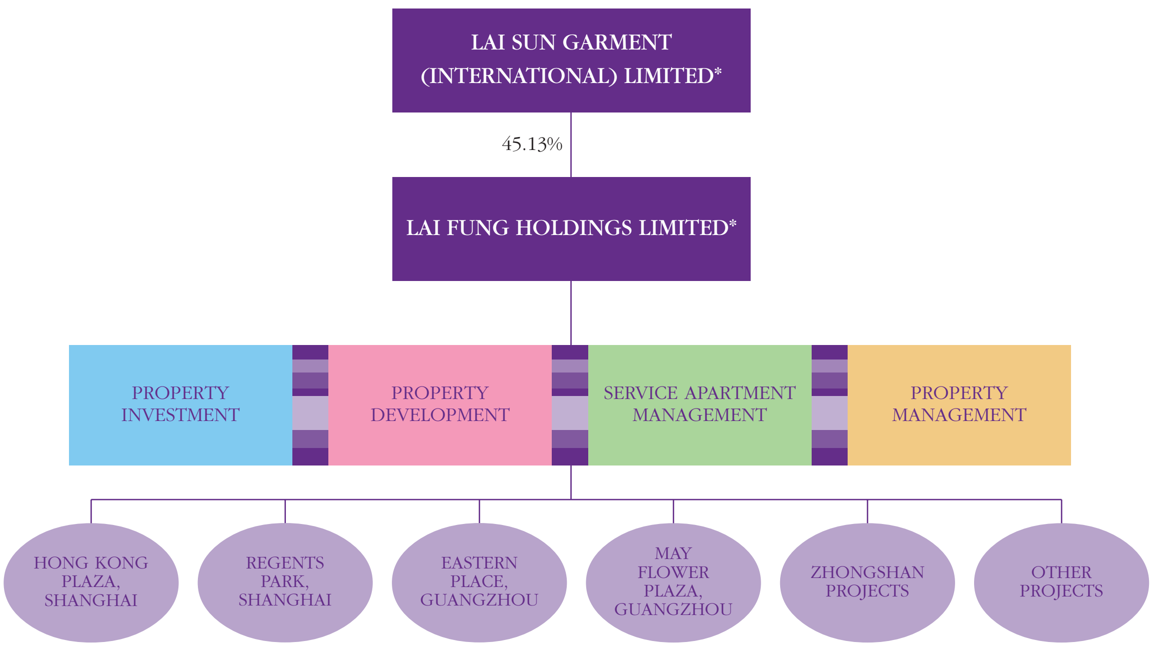
Corporate Profile

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 of the Lai Sun Group in Mainland of China ("PRC").

Lai Fung's core businesses include the investment and development of service apartments, residential, office and commercial properties in prime locations in major gateway cities in the PRC 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 and in-depth knowledge in property development in the PRC, Lai Fung is well poised to benefit from the growing demand for quality properties under the booming PRC economy.



* *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)
Ho Wing Tim
(Deputy Chief Executive Officer)°
Lee Po On
U Po Chu
Lau Shu Yan, Julius
Tam Kin Man, Kraven
Lam Kin Ko, Stewart°
Wong Yee Sui, Andrew
Lam Bing Kwan
Wan Yee Hwa, Edward

* *also alternate director to°*

Registered Office
Ugland House
South Church Street
P.O.Box 309, 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

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.
15th Floor, Alexandra House
16-20 Chater Road, Central
Hong Kong

Woo, Kwan, Lee & Lo
27th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

As to Cayman Islands law:
Maples and Calder Asia
1504 One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Principal Bankers
China Construction Bank Corporation
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank, Limited

Share Registrars in Hong Kong
Tengis Limited
Ground Floor
Bank of East Asia
Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Chairman's Statement

Chairman LAM Kin Ngok, Peter

IN MEMORIAM

Mr. Lim Por Yen, the founder of the Lai Sun Group, passed away in February 2005. He was a man of energy, vision and perseverance and dedicated to work and family. His contribution to the Group is immeasurable and his death an irreplaceable loss.

RESULTS

The Group recorded a consolidated profit for the year attributable to equity holders of the parent of HK$246,197,000 for the year ended 31st July, 2005, compared with a consolidated profit for the year attributable to equity holders of the parent of HK$36,006,000, as restated, for the previous year. Shareholders' equity as at 31st July, 2005 amounted to HK$4,182,601,000 up from a restated HK$3,861,517,000 as at 31st July, 2004. Basic earnings per share was HK$0.0419 compared to HK$0.0071 in the previous year as restated. Net asset value per share as at 31st July, 2005 was HK$0.71, as compared to HK$0.66 on 31st July, 2004 as restated.

FINAL DIVIDEND

The Directors do not recommend payment of dividend for the year ended 31st July, 2005 (2004: Nil).

Chairman's Statement

BUSINESS REVIEW

The much-publicised fear of hard landing for the economy in Mainland of China ("PRC") that followed the introduction of macro-economic policies in May 2004 has largely evaporated. The property sector was one specifically identified as being targeted by the macro-economic policies. The credit squeeze and other administrative measures introduced to cool the economy did have an impact; they did not actually cause much of an economic slowdown but economic growth in the PRC was probably lower than it might otherwise have been in the absence of the macro-economic policies. Economic growth in the PRC was 9.5% in 2004. Growth this year is likely to be at a similar rate and possibly in 2006 as well.

In March 2005, the authorities announced a series of macro-economic policies such as the levy of additional taxes on sales of second-hand properties and the tightening of mortgage loans that were specifically designed to curb real estate speculation which had flourished despite the macro-economic policies introduced the previous year. Since then the level of speculation in the PRC real estate has declined markedly and property prices generally have fallen, particularly in the residential sector of the Shanghai real estate market, where property prices had been notably strong in the two years up to the first quarter of 2005.

The Group took advantage of the strength in the property market to pre-sell its development projects generally as soon as the projects had progressed to the point where it was possible for pre-sales to begin. As a result, the Group was able to sell most of its residential units available for pre-sale before the current softness in the market set in. The Group's investment properties also benefited from the strength in the property market. During the year, rental income rose 21% to HK$155 million which includes an initial rental contribution of HK$15 million from May Flower Plaza, an office and commercial complex in Guangzhou which was completed in mid-2005.

Following completion of May Flower Plaza, this investment property project which had been classified under "Properties under development" was reclassified under "Investment properties" and in accordance with HKAS 40 the revaluation surplus was credited to the consolidated income statement and provision has been made for the resulting deferred tax liability. Prior to the change in accounting standards, changes in the value of investment properties have been dealt with as movements in the investment property revaluation reserve. This account has also been affected by HKAS 16 as our land bank is now stated at cost.

Chairman's Statement

REVIEW OF PROJECTS

SHANGHAI

Hong Kong Plaza

The Group's twin-tower property located at Huaihaizhong Road, Shanghai, has a gross floor area of approximately 130,000 sq. m. comprising offices, shopping arcades and service apartments with extensive clubhouse facilities. Following upward adjustments in the room rates and increment in occupancy rate, rental contribution from the property continued to increase during the year under review. Also, in response to the market demand, a series of renovation work for service apartments, office tower and shopping arcades was begun in early 2005. The renovation of the service apartments has been completed increasing the number of service apartments from 299 to 331 (i.e. 213 units 100% owned and 118 units 95% owned). Rental income from Hong Kong Plaza during the year amounted to HK$140 million, up from HK$128 million in 2003-2004.

Hitherto, the service apartments in Hong Kong Plaza had been accounted for as investment properties. Under the new accounting standards that have come into force, service apartments are considered as operating assets, so appropriate amortisation has been charged and the prior year's result has been restated to reflect this change.

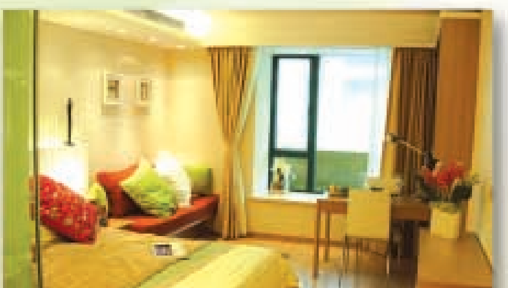
Regents Park

Another key project of the Group is Regents Park located at a 36,000 sq. m. site in Shanghai's prestigious Changning District near Zhongshan Park subway station. On completion, the Regents Park development will comprise 13 residential towers, with approximately 156,000 sq. m. of gross floor area, a fully-appointed clubhouse and other facilities. Phase I of the project, including 7 residential towers (Towers 1 to 7) with 1,010 units is scheduled for completion in late 2005.

The pre-sale permit for Tower 7 was obtained in September 2004 while the pre-sale permits for Towers 1 to 5 were issued in the previous financial year. By 31st December, 2004, 679 units of the 693 units of Towers 1 to 5 and Tower 7 had been sold. Under the Group's previous accounting policy, turnover and profit for these 679 units were recognised on a percentage of completion basis. The pre-sale permit for Tower 6 (317 units) was obtained in late March 2005 and there was a good market response. By 31st July, 2005, 268 units were pre-sold. However, under the new accounting interpretation that has come into force, revenues and profits from property development after 1st January, 2005 will only be recognised when the conditions in HKAS 18 are satisfied.

香港廣場
HONG KONG PLAZA

REGENTS PARK
凯欣豪園



Chairman's Statement

GUANGZHOU

Eastern Place

This project is located at Dongfeng East Road in Guangzhou. With a total site area of approximately 60,000 sq. m., the entire project comprises 8 residential towers and a 140,000 sq. m. commercial/ office complex, to be developed in several phases. Construction works on Phases I and II, which comprise 4 residential towers (Towers 1 to 4), and the well-appointed residents' clubhouse, Eastern Club, have been completed. Other facilities including a 50-metre swimming pool, tennis courts and golf amenities have also been put into service.

For Phase III, there are two towers (Towers 5 and 6) with 438 units. Phase III was completed in December 2004. As at 31st July, 2005, 436 of these units have been sold. Phase IV (Towers 7 and 8 comprising 438 units) is under construction and completion is scheduled for early 2006.

May Flower Plaza

This property is situated at a prime location directly above the Gongyuanqian subway station, interchange station of Guangzhou Subway Line No. 1 and 2, on Zhongshanwu Road. The 13-storey complex offers approximately 35,000 sq. m. of office, commercial area and a cinema city with state-of-the-art facilities. It also has a four-storey basement of approximately 14,000 sq. m. earmarked for commercial and car park use. The property was opened in mid-2005 and is now over 90% let. A number of prestigious and sizable tenants, such as Baleno, Bioscreen, Bossini, City Chain, Coca-Cola Shop, Esprit, http://www.izzue.com, MaBelle, Mannings, Nike, Optical 88, Swatch, Standard Chartered Bank, Theme, and Wanya Japanese Restaurant, have commenced business in the shopping arcade.

ZHONGSHAN

During the year under review, the Group's wholly-owned subsidiary, Zhongshan Bao Li Properties Development Co., Ltd., acquired two new pieces of land through public auctions. The size of the two pieces of land are approximately 70,460 sq. m. and 99,950 sq. m. raising the size of the land bank of the Group in Zhongshan to approximately 236,000 sq. m. The Group's sites in Zhongshan are contiguous and will be developed as one project. The expected gross floor area is approximately 354,000 sq. m., including approximately 248,000 sq. m. and 53,000 sq. m. for residential and commercial purposes, respectively. Development plans for the project are being evaluated and site formation work began in September 2005.

東風廣場
EASTERN PLACE

五月花商业广场
MayFlower plaza

Chairman's Statement

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank borrowings on project basis and general bank loan facilities on secured basis.

As at 31st July, 2005, the Group had a gross borrowing (inclusive of the advances of HK$44,795,000 (2004: HK$11,324,000) advanced by the late Mr. Lim Por Yen) amounting to HK$996 million (2004: HK$1,194 million), representing a decrease of HK$198 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK$4,183 million (2004 (restated): HK$3,862 million). The resultant debt to equity ratio was 0.24 (2004 (restated): 0.31).

During the year under review, the Group obtained additional unsecured advances of approximately HK$33,471,000 from the late Mr. Lim Por Yen, a substantial shareholder of the Company. The aggregate outstanding balance of the advances from the late Mr. Lim as at 31st July, 2005 was HK$44,795,000.

Approximately 96% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 4% were interest-free. As at 31st July, 2005, approximately 34% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 66% were denominated in United States dollars ("USD").

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

Chairman's Statement

The maturity profile of the Group's bank borrowings as at 31st July, 2005 was spread over a period of five years, with approximately 23% repayable within one year and 77% repayable between two to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK$3,073 million, service apartments with carrying value amounting to approximately HK$566 million, properties under development with carrying value amounting to approximately HK$444 million, and bank balances amounting to approximately HK$2 million at the balance sheet date.

Taking into account cash held as at the balance sheet date, available banking facilities and recent improvements in the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing property development and investment projects. The Group will consistently maintain a prudent financial policy.

CONTINGENT LIABILITIES

According to a practice common among banks in the PRC when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Company 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 Phase I to III of Eastern Place. The Group's obligations have gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. As the PRC property market is currently stable, the management does not expect such contingent liabilities to crystallise to a material extent in the near term.

EMPLOYEES AND REMUNERATION POLICIES

As the employer of approximately 550 staff, the Group recognises the importance that maintaining strong human resources plays 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 a share option scheme, a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

Chairman's Statement

SHARE OPTION SCHEME

In order to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible employees (including executive and non-executive directors) and for such other purposes as the Directors may approve from time to time, a share option scheme was adopted by the shareholders of the Company on 21st August, 2003. There were no share options outstanding as at 31st July, 2005 (2004: Nil).

PROSPECTS

In the short term, the Group expects rental income from its flagship Shanghai property, Hong Kong Plaza, will continue to grow, augmented in the current financial year by a full year's contribution from May Flower Plaza in Guangzhou. Projected sales of development properties scheduled for completion in the next few years, including later phases of Regents Park in Shanghai and Eastern Place in Guangzhou, should continue to contribute to the profitability of the Group.

In the medium term, the Directors do not expect that the series of macro-economic policies implemented by the Central Government will impede the PRC's economic growth, especially in the Yangtze and Pearl River deltas. As anticipated when the PRC joined the World Trade Organisation, previous restrictions for overseas investors in areas such as banking, insurance and service sectors are being relaxed as the PRC's economy becomes more integrated with the world economy. This will continue to draw an influx of foreign corporations seeking to establish or strengthen their presence in the PRC. With a number of key infrastructure projects in the pipeline, including the preparatory work of 2010 World Expo, the Group anticipates that Shanghai's economy will continue to grow, which should ensure demand in the property market. The initiatives on Pan-Pearl River Delta (Pan-PRD) regional cooperation and development, which is also known as "9+2", and the deepening of CEPA with CEPA III taking effect from January 2006 will accelerate the opening up and future development of this region.

With the proposed construction of the Hongkong-Zhuhai-Macau Bridge and the huge prospect brought about by the Pan-PRD cooperation, the Group is optimistic about future economic growth and development of the Zhongshan property market.

Chairman's Statement

As a result, notwithstanding the correction underway in the PRC property market, the Group will maintain its focus on property investment and development projects. The Group plans to accelerate the development of its land bank and will also explore opportunities to expand its land bank in selected locations to take advantage of the present weaker market conditions which the Directors consider will be temporary in nature. To fund acceleration of the development of the Group's land bank and acquisition of new sites, the Group will consider debt, equity, joint venture and other financing options. Indeed, the Group is very close to concluding an agreement with a joint venture partner for the development of its Jinshazhou site in Heng Sha, Guangzhou. The total gross floor area of this project is approximately 356,000 sq.m. and to accelerate the development of this project, management believes that it is prudent to join forces with a strong joint venture partner.

I would like to take this opportunity to express my sincere appreciation to our shareholders, customers and suppliers for their continuous support. My gratitude also goes to our invaluable staff for their dedicated service to the Group throughout the year.

Lam Kin Ngok, Peter
Chairman

Hong Kong
18th November, 2005

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 31st July, 2005.

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 31st July, 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 104.

The directors do not recommend the payment of a final dividend in respect of the year (2004: Nil). No interim dividend has been declared or paid by the Company for the year (2004: Nil).

Report of the Directors

DIRECTORS

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

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)*	(appointed on 22nd April, 2005)
Ho Wing Tim *(Deputy Chief Executive Officer)* °	
Lee Po On	
U Po Chu	
Lau Shu Yan, Julius	(appointed on 22nd April, 2005)
Tam Kin Man, Kraven	(appointed on 22nd April, 2005)
Lim Por Yen	(passed away on 18th February, 2005)
Yew Yat Ming	(resigned on 22nd April, 2005)

Non-executive directors:

Lam Kin Ko, Stewart °	
Wong Yee Sui, Andrew**	
Lam Bing Kwan**	
Wan Yee Hwa, Edward**	(appointed on 1st October, 2005)
Chiu Wai	(resigned on 22nd April, 2005)
Shiu Kai Wah	(resigned on 22nd April, 2005)
Siu Fai Wing	(resigned on 22nd April, 2005)
Yu Po Kwan	(resigned on 22nd April, 2005)
Mui Ying Chun, Robert**	(appointed on 30th September, 2004 and resigned on 1st October, 2005)

** *Independent non-executive directors*

* *Also alternate director to °*

In accordance with Article 99 of the Company's Articles of Association, Mr. Lam Hau Yin, Lester, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven and Mr. Wan Yee Hwa, Edward retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Mr. Wong Yee Sui, Andrew retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 7(ii) and 7(iii) 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors:

Mr. Lam Kin Ngok, Peter, Chairman, aged 48, was appointed a director of the Company in November 1993. Mr. Lam is also the chairman of Lai Sun Development Company Limited ("LSD"), the deputy chairman of Lai Sun Garment (International) Limited ("LSG") (a substantial shareholder of the Company), an executive director of eSun Holdings Limited ("eSun") and Crocodile Garments Limited ("CGL"). LSD, LSG, eSun and CGL are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Madam U Po Chu, an executive director of the Company, and is the younger brother of Mr. Lam Kin Ming, the deputy chairman of the Company. Mr. Lam has interest in the listed securities 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 will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lam is currently entitled to annual emoluments of HK$2,000,000 and a discretionary bonus, to be determined by the Board 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)

Mr. Lam Kin Ming, Deputy Chairman, aged 68, was appointed a director of the Company in September 1997. He was also appointed an alternate director to Mr. Lam Kin Ko, Stewart and Mr. Ho Wing Tim on 21st April, 2001. Mr. Lam is a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited and the chairman of both Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments 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 securities 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 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 currently entitled to annual emoluments of HK$1,920,000 and a discretionary bonus, to be determined by the Board with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Lam Kin Hong, Matthew, Executive Deputy Chairman, aged 38, 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 the property development fields and corporate finance fields in Hong Kong and the Mainland of 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 24, was appointed a director of the Company in April 2005. He joined Lai Sun Development Company Limited as a vice president in January 2004. 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. Save as aforesaid, Mr. Lam has not held any other directorships in listed public companies in the last three years. Mr. Lam does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He is a son of Mr. Lam Kin Ngok, Peter. Mr. Lam does not have a service contract with the Company but he will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Mr. Ho Wing Tim, Deputy Chief Executive Officer, aged 47, was appointed a director of the Company in April 2001. Mr. Ho joined the Lai Sun Group in November 1990. He has over 20 years' experience in the finance fields.

Mr. Lee Po On, aged 50, was appointed a director of the Company in January 2003. Mr. Lee is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), and an executive director and chief executive officer of eSun Holdings Limited. Mr. Lee joined the Lai Sun Group in November 1987. He is a Fellow of the Association of Chartered Certified Accountants with over 25 years' financial and commercial experience.

Madam U Po Chu, aged 80, 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' 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. In 2000, Madam U began investing in the catering industry in Hong Kong. Madam U is Mr. Lam Kin Ngok, Peter's mother.

Mr. Lau Shu Yan, Julius, aged 49, 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. 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 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 securities 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 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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Mr. Tam Kin Man, Kraven, aged 58, was appointed a director of the Company in April 2005. He is also a director of Lai Sun Development Company Limited ("LSD"). He joined LSD in March 1989 and is currently a director of Furama Hotel Enterprises Limited and a number of subsidiaries of the Company. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has close to 30 years' experience in property development, investment and management. He also has over 15 years' 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 aforesaid, Mr. Tam does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Tam does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Tam does not have any service contract with the Company but he will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. 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.

Non-executive director:

Mr. Lam Kin Ko, Stewart, aged 57, was appointed a director of the Company in April 2001. He has over 10 years' experience in garment manufacturing and China trade and has held the position of Consultant to the Chairman (China Affairs) of the Lai Sun Group since 1994.

Independent non-executive directors:

Mr. Wong Yee Sui, Andrew, aged 56, 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. Save as aforesaid, Mr. Wong does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Wong does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Wong does not have any service contract with the Company but he will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. The amount of director's fees and other emoluments payable to Mr. Wong will be determined by the Board, with reference to his duties and responsibilities within the Company and other relevant market benchmark.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent non-executive directors: (continued)

Mr. Lam Bing Kwan, aged 56, 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 the Mainland of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently 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. Wan Yee Hwa, Edward, aged 69, was appointed an independent non-executive director of the Company in October 2005. Mr. Wan is also an independent non-executive director of Crocodile Garments Limited and Lai Sun Garment (International) Limited (a substantial shareholder of the Company). He is a Fellow of Hong Kong Institute of Certified Public Accountants and has been a certified public accountant in Hong Kong since 1961. Mr. Wan does not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company. Save as aforesaid, he does not hold any position with the Company or any subsidiary of the Company. Mr. Wan does not have any interest (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) in shares of the Company. The Company has not entered into any service contract with Mr. Wan and there is no fixed term of service. Mr. Wan will be subject to retirement and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company. The amount of director's fees and other emoluments payable to Mr. Wan will be determined by the Board, with reference to his duties and responsibilities within the Company and other relevant market benchmark.

Senior management:

Mr. Tse Ho Yin, Iain, aged 56, joined the Company in March 2005 as General Manager, Guangzhou Region. Mr. Tse recently retired from the civil service after having served in the Hong Kong Police force for 32 years. Immediately prior to his retirement, Mr. Tse 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. Tse is responsible for the management of the commercial and residential properties portfolio of the Company in the Guangzhou area.

Mr. Wong Kam Kwan, aged 58, joined Lai Sun Group in December 2004 and is currently the General Manager for Shanghai Region. Mr. Wong has over 30 years of working experience and extensive exposure in the property industry.

Mr. Wong Kim Man, aged 32, joined the Company in 2001 and is the Acting Financial Controller and qualified accountant of the Company. Mr. Wong is a Fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Report of the Directors

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme", 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.

DIRECTORS' INTERESTS

As at 31st July, 2005, 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 of equity derivatives 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 for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

The Company

	Long positions in the shares					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lam Kin Ngok, Peter	Nil	Nil	2,650,688,037 (Note 1)	Beneficial owner	2,650,688,037	45.13%
U Po Chu	Nil	Nil	2,650,688,037 (Note 2)	Beneficial owner	2,650,688,037	45.13%
Lau Shu Yan, Julius	2,258,829	Nil	Nil	Beneficial owner	2,258,829	0.04%

Notes:

1. These interests in the Company represented the shares beneficially owned by Lai Sun Garment (International) Limited ("LSG") (1,819,206,362 shares) and Silver Glory Securities Limited ("SGS") (831,481,675 shares), a wholly-owned subsidiary of LSG. Mr. Lam Kin Ngok, Peter was deemed to be interested in the 2,650,688,037 shares in the Company held by LSG and SGS since he held a 50% interest in Wisdoman Limited which held 545,615,718 shares in LSG (representing 33.73%).

2. These interests in the Company represented the shares beneficially owned by LSG (1,819,206,362 shares) and SGS (831,481,675 shares). Madam U Po Chu was deemed to be interested in the 2,650,688,037 shares in the Company held by LSG and SGS since she held a 50% interest in Wisdoman Limited which held 545,615,718 shares in LSG (representing 33.73%).

3. Madam U Po Chu is the widow of the late Mr. Lim Por Yen, whose estate includes an interest in 115,156,000 shares in the Company.

Save as disclosed above, as at 31st July, 2005, 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 of equity derivatives 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

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 21st 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2005, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the shares

Name	Capacity	Nature	Number of Shares	Percentage
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate Interest	2,650,688,037 (Note 1)	45.13%
Silver Glory Securities Limited ("SGS")	Beneficial owner	Corporate Interest	831,481,675	14.16%
Wisdoman Limited	Beneficial owner	Corporate Interest	2,650,688,037 (Note 2)	45.13%
Lam Kin Ngok, Peter	Beneficial owner	Corporate Interest	2,650,688,037 (Note 3)	45.13%
U Po Chu	Beneficial owner	Corporate Interest	2,650,688,037 (Note 4)	45.13%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Notes:

1. These interests in the Company represented the shares beneficially owned by LSG (1,819,206,362 shares) and SGS (831,481,675 shares), a wholly-owned subsidiary of LSG. SGS's interest constituted part of the interest held by LSG.

2. This parcel of shares refers to the same parcel of shares held by LSG and SGS since Wisdoman Limited held approximately 33.73% of the issued share capital of LSG.

3. Mr. Lam Kin Ngok, Peter was deemed to be interested in 2,650,688,037 shares held by LSG and SGS by virtue of his holding of a 50% interest in Wisdoman Limited which held approximately 33.73% of the issued share capital of LSG.

4. Madam U Po Chu was deemed to be interested in 2,650,688,037 shares held by LSG and SGS by virtue of her holding of a 50% interest in Wisdoman Limited which held approximately 33.73% of 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 equity derivatives of the Company as at 31st July, 2005.

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in note 28 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.

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	Gross floor area
Eastern Place, 787 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, PRC	100%	Residential towers 7 & 8 construction work in progress	Residential towers 7 & 8 in 2006	Residential/ commercial/ office	Total site area (residential towers 7 & 8 and remaining phases): 26,941 sq.m. Total gross floor area (residential towers 7 & 8 and remaining phases): approximately 184,000 sq.m.

Report of the Directors

DETAILS OF PROPERTIES (continued)

Location	Group interest	Stage of construction	Expected completion date	Expected use	Gross floor area
Hai Zhu Plaza (formerly known as "Guangli Building"), Chang Di Main Road, Yuexiu District, Guangzhou, Guangdong Province, PRC	100%	Resettlement of original inhabitants in progress	2009	Commercial/ office	Total site area: 8,427 sq.m. Total gross floor area: approximately 104,000 sq.m
Jinshazhou, Heng Sha, Guangzhou, Guangdong Province, PRC	100%	Planning stage	2010	Residential/ commercial	Total site area: 297,186 sq.m. Total gross floor area: approximately 356,000 sq. m.
Regents Park, 88 Huichuan Road, Changning District, Shanghai, PRC	95%	Phase I construction work in progress	Phase I in late 2005	Residential/ commercial	Total site area: 36,149 sq.m. Total gross floor area: approximately 175,000 sq. m.

Report of the Directors

DETAILS OF PROPERTIES (continued)

The investment properties of the Group are as follows:

Location	Group interest	Tenure	Use	Gross floor area
Commercial podium and certain office and service 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 16th September, 1992 and expiring on 15th September, 2042	Office/ shopping arcades/ service apartments	approximately 108,675 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 16th September, 1992 and expiring on 15th September, 2042	Service apartments	approximately 19,673 sq. m.
No. 18 of Alley 905, Hua Shan Road, Xuhui District, Shanghai, PRC	100%		Residential	approximately 318 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 (14th October, 1997)	Shopping arcades/ office	approximately 49,985 sq. m.

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

Location	Group interest	Gross floor area
Certain residential units in Eastern Place, 787 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, PRC	100%	1,718 sq. m.

Report of the Directors

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 16 and 17, and 18, respectively, to the financial statements. Further details of the Group's investment properties are set out in this report under the heading "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 19 to the financial statements. Further details of the Group's properties under development are set out in this report under the heading "Details of Properties" above.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital and share options are set out in notes 30 and 31 to the financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31st July, 2005, 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$3,088,464,000 (2004: HK$3,007,641,000). 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$10,202,000.

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 and restated as appropriate, is set out below:

Results

	Year ended 31st July,				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover	**402,863**	630,204	119,338	142,510	161,743
Profit / (loss) before tax	**440,644**	17,245	44,691	(136,653)	(175,135)
Tax	**(122,817)**	16,207	(16,246)	(7,666)	(6,881)
Profit / (loss) for the year	**317,827**	33,452	28,445	(144,319)	(182,016)
Attributable to:					
Equity holders of the parent	**246,197**	36,006	29,970	(142,995)	(182,001)
Minority interests	**71,630**	(2,554)	(1,525)	(1,324)	(15)
	317,827	33,452	28,445	(144,319)	(182,016)

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	As at 31st July,				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Fixed assets	**631,117**	639,451	651,641	663,925	634,051
Investment properties	**3,081,300**	1,971,400	2,151,000	2,152,000	2,177,000
Properties under development	**1,349,596**	1,881,878	1,958,498	1,761,886	1,747,624
Negative goodwill	**—**	(8,807)	(9,040)	—	—
Interests in associates	**658,058**	645,401	600,237	589,458	611,460
Interests in jointly-controlled entities	**—**	—	—	5,118	50,127
Long term investments	**—**	—	2,300	—	—
Pledged bank balances	**—**	10,262	—	—	—
Current assets	**699,265**	724,103	264,392	193,351	228,136
TOTAL ASSETS	**6,419,336**	5,863,688	5,619,028	5,365,738	5,448,398
Current liabilities	**(785,953)**	(435,009)	(313,336)	(395,388)	(389,886)
Long term rental deposits received	**(23,257)**	(14,147)	(12,666)	(10,735)	(7,303)
Long term interest-bearing bank loans, secured	**(732,538)**	(1,093,593)	(1,074,362)	(829,445)	(891,635)
Advances from a substantial shareholder	**(44,795)**	—	—	(86,886)	(53,285)
Deferred tax liabilities	**(431,030)**	(299,394)	(358,826)	(346,683)	(341,368)
TOTAL LIABILITIES	**(2,017,573)**	(1,842,143)	(1,759,190)	(1,669,137)	(1,683,477)
	4,401,763	4,021,545	3,859,838	3,696,601	3,764,921
Minority interests	**(219,162)**	(160,028)	(162,589)	(122,244)	(122,913)
	4,182,601	3,861,517	3,697,249	3,574,357	3,642,008

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers was 6.4% of the Group's total turnover. During the year, the Group's purchases from its five largest suppliers accounted for approximately 24.2% of the Group's total purchases, while the largest supplier accounted for approximately 14.7% 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.

Report of the Directors

DISCLOSURE PURSUANT TO PARAGRAPH 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 loans agreements dated 14th June, 2001 and 15th February, 2005, 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 at the balance sheet date amounted to approximately HK$932 million, with the last instalment repayment falling due in July 2008.

DISCLOSURE PURSUANT TO PARAGRAPH 13.22 OF CHAPTER 13 OF THE LISTING RULES

At the balance sheet date, the Group had amounts due from affiliated companies which in total exceeded 8% of the Group's total assets as at 31st July, 2005 and, individually and in aggregate exceeded 8% of the Company's market capitalisation as at 31st July, 2005, as set out below:

Name of affiliated companies	Percentage of attributable interest held by the Group	Amounts due from affiliated companies HK$'000	Notes
Hankey Development Limited	50%	223,237	1
Besto Investments Limited	25%	497,571	2
		720,808	

Notes:

1. The amounts due from the affiliated companies are unsecured, interest-free and have no fixed terms of repayment.

2. Except for an amount of HK$298,531,000 which bears interest at the Hong Kong Dollar prime rate as quoted by a designated bank in Hong Kong plus 2% per annum, the amounts due from the affiliated companies are unsecured, interest-free and have no fixed terms of repayment.

The Group did not have any committed capital and loan injection to any of its affiliated companies.

Report of the Directors

DISCLOSURE PURSUANT TO PARAGRAPH 13.22 OF CHAPTER 13 OF THE LISTING RULES (continued)

The total amounts due from the affiliated companies represented approximately 11.2% of the Group's total assets of HK$6,419,336,000 as at 31st July, 2005 and represented approximately 69% of the Company's market capitalisation as at 31st July, 2005.

The proforma combined balance sheet of the affiliated companies as at 31st July, 2005 is as follows:

	HK$'000
Interests in joint venture	626,882
Investment properties	382,000
Properties under development	172,000
Fixed assets	451
Net current liabilities	(106)
Total assets less current liabilities	1,181,227
Amounts due to shareholders	(1,780,748)
Deferred tax liabilities	(33,218)
	(632,739)
Capital and reserves	
Issued capital	40,010
Reserves	(679,824)
	(639,814)
Minority interests	7,075
	(632,739)

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year ended 31st July, 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31st July, 2005.

Report of the Directors

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to 1st January, 2005 throughout the accounting period covered by the annual report. The non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

The Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "CG Code") on 1st January, 2005 but transitional arrangements for disclosure are applicable in respect of accounting periods commencing on or after 1st January, 2005. The Company has taken relevant actions to comply with the CG Code.

The annual results of the Company for the year ended 31st July, 2005 have been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive directors of the Company, namely, Mr. Wong Yee Sui, Andrew, Mr. Lam Bing Kwan and Mr. Wan Yee Hwa, Edward.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors (the "Code") on terms no less exacting than the standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors who have confirmed their compliance with the required standard set out in the Code during the year ended 31st July, 2005.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming 2005 Annual General Meeting.

On behalf of the Board

Lam Kin Ngok, Peter
Chairman

Hong Kong
18th November, 2005

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 33 to 104 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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 31st July, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
18th November, 2005

Consolidated Income Statement

Year ended 31st July, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
TURNOVER	8	**402,863**	630,204
Cost of sales		**(241,256)**	(406,446)
Gross profit		**161,607**	223,758
Other income and gain	8	**62,649**	58,277
Selling expenses		**(31,085)**	(26,765)
Administrative expenses		**(87,619)**	(67,359)
Other operating expenses, net		**(24,573)**	(15,354)
Revaluation surplus/(deficit) on investment properties	18	**435,073**	(189,121)
Loss on disposal of a subsidiary		**—**	(290)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		**516,052**	(16,854)
Finance costs	9	**(42,470)**	(31,758)
Share of profit of an associate		**3,015**	25,841
Provision for amounts due from associates		**(35,953)**	(2,539)
Write-back of provision for impairment of interest in a jointly-controlled entity		**—**	42,555
PROFIT BEFORE TAX	10	**440,644**	17,245
Tax	13	**(122,817)**	16,207
PROFIT FOR THE YEAR		**317,827**	33,452
ATTRIBUTABLE TO:			
Equity holders of the parent		**246,197**	36,006
Minority interests		**71,630**	(2,554)
		317,827	33,452
EARNINGS PER SHARE	15		
Basic		**4.19 cents**	0.71 cents
Diluted		**N/A**	0.71 cents

Consolidated Balance Sheet

31st July, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets:			
Property, plant and equipment	16	**625,686**	633,873
Prepaid land lease payments	17	**5,431**	5,578
Investment properties	18	**3,081,300**	1,971,400
Properties under development	19	**1,349,596**	1,881,878
Negative goodwill	20	**—**	(8,807)
Interests in associates	22	**658,058**	645,401
Pledged bank balances	25	**—**	10,262
Total non-current assets		**5,720,071**	5,139,585
CURRENT ASSETS			
Properties under development	19	**53,284**	—
Completed properties for sale	23	**8,683**	48,836
Debtors, deposits and prepayments	24	**120,397**	105,855
Tax recoverable		**9,140**	13,811
Pledged time deposits and bank balances	25	**15,241**	6,871
Cash and cash equivalents	25	**492,520**	548,730
Total current assets		**699,265**	724,103
CURRENT LIABILITIES			
Creditors and accruals	26	**255,715**	257,510
Deposits received and deferred income		**288,571**	34,424
Rental deposits received		**10,809**	10,386
Interest-bearing bank loans, secured	27	**218,527**	89,227
Tax payable		**12,331**	32,138
Advances from a substantial shareholder	28	**—**	11,324
Total current liabilities		**785,953**	435,009
NET CURRENT ASSETS/(LIABILITIES)		**(86,688)**	289,094
TOTAL ASSETS LESS CURRENT LIABILITIES - page 35		**5,633,383**	5,428,679

Consolidated Balance Sheet

31st July, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES - page 34		**5,633,383**	5,428,679
NON-CURRENT LIABILITIES			
Long term rental deposits received		**(23,257)**	(14,147)
Interest-bearing bank loans, secured	27	**(732,538)**	(1,093,593)
Advances from a substantial shareholder	28	**(44,795)**	—
Deferred tax liabilities	29	**(431,030)**	(299,394)
Total non-current liabilities		**(1,231,620)**	(1,407,134)
		4,401,763	4,021,545
EQUITY			
Equity attributable to equity holders of the parent:			
Issued capital	30	**587,296**	587,296
Share premium account		**3,224,676**	3,224,676
Exchange fluctuation reserve		**82,618**	16,538
Capital reserve		**(457)**	60,065
Retained earnings/(accumulated losses)		**288,468**	(27,058)
		4,182,601	3,861,517
Minority interests		**219,162**	160,028
		4,401,763	4,021,545

Lam Kin Ngok, Peter
Director

Lee Po On
Director

Consolidated Statement of Changes in Equity

Year ended 31st July, 2005

		Attributable to equity holders of the parent								Minority interests	Total equity
	Notes	Issued share capital HK$'000	Share premium account HK$'000	Exchange fluctuation reserve HK$'000	Investment properties revaluation reserve HK$'000	Revaluation reserve of properties under development held for investment potential HK$'000	Capital reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000	HK$'000	HK$'000
Total equity at 1st August, 2003											
As previously reported		460,624	3,222,276	17,349	270,764	1,265,426	58,063	(217,132)	5,077,370	174,318	5,251,688
Effect of adopting HKFRSs	3	—	—	—	(270,764)	(1,265,426)	2,002	154,068	(1,380,120)	(11,730)	(1,391,850)
As restated		460,624	3,222,276	17,349	—	—	60,065	(63,064)	3,697,250	162,588	3,859,838
CHANGES IN EQUITY FOR THE YEAR:											
Exchange realignments:											
Subsidiaries		—	—	635	—	—	—	—	635	(6)	629
Associates		—	—	(1,446)	—	—	—	—	(1,446)	—	(1,446)
Profit for the year (restated)		—	—	—	—	—	—	36,006	36,006	(2,554)	33,452
Total recognised income and expenses for the year		—	—	(811)	—	—	—	36,006	35,195	(2,560)	32,635
Rights issue	30	117,460	—	—	—	—	—	—	117,460	—	117,460
Exercise of share options	30	9,212	6,357	—	—	—	—	—	15,569	—	15,569
Share issue expenses	30	—	(3,957)	—	—	—	—	—	(3,957)	—	(3,957)
Total equity at 31st July, 2004 (restated)		587,296	3,224,676	16,538	—	—	60,065	(27,058)	3,861,517	160,028	4,021,545

Consolidated Statement of Changes in Equity

Year ended 31st July, 2005

	Note	Attributable to equity holders of the parent								Minority interests	Total equity
		Issued share capital	Share premium account	Exchange fluctuation reserve	Investment properties revaluation reserve	Revaluation reserve of properties under development held for investment potential	Capital reserve	Retained earnings/ (accumulated losses)	Total		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total equity at 1st August, 2004											
As previously reported		587,296	3,224,676	16,538	100,593	1,332,490	58,063	(44,358)	5,275,298	215,708	5,491,006
Effect of adopting HKFRSs	3	—	—	—	(100,593)	(1,332,490)	(58,520)	86,629	(1,404,974)	(55,680)	(1,460,654)
As restated		587,296	3,224,676	16,538	—	—	(457)	42,271	3,870,324	160,028	4,030,352
CHANGES IN EQUITY FOR THE YEAR:											
Exchange realignments:											
Subsidiaries		—	—	64,094	—	—	—	—	64,094	3,613	67,707
Associates		—	—	1,986	—	—	—	—	1,986	—	1,986
Profit for the year		—	—	—	—	—	—	246,197	246,197	71,630	317,827
Total recognised income and expenses for the year		—	—	66,080	—	—	—	246,197	312,277	75,243	387,520
Repayment to minority interests		—	—	—	—	—	—	—	—	(16,109)	(16,109)
Total equity at 31st July, 2005		587,296	3,224,676	82,618	—	—	(457)	288,468	4,182,601	219,162	4,401,763

Consolidated Statement of Changes in Equity

Year ended 31st July, 2005

	Attributable to equity holders of the parent								Minority interests	Total equity
	Issued share capital	Share premium account	Exchange fluctuation reserve	Investment properties revaluation reserve	Revaluation reserve of properties under development held for investment potential	Capital reserve	Retained earnings/ (accumulated losses)	Total		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Reserves retained by:										
Company and subsidiaries	587,296	3,224,676	74,099	—	—	(457)	422,674	4,308,288	219,162	4,527,450
Associates	—	—	8,519	—	—	—	(134,206)	(125,687)	—	(125,687)
At 31st July, 2005	587,296	3,224,676	82,618	—	—	(457)	288,468	4,182,601	219,162	4,401,763
Reserves retained by:										
Company and subsidiaries (restated)	587,296	3,224,676	10,005	—	—	60,065	110,163	3,992,205	160,028	4,152,233
Associates (restated)	—	—	6,533	—	—	—	(137,221)	(130,688)	—	(130,688)
At 31st July, 2004 (restated)	587,296	3,224,676	16,538	—	—	60,065	(27,058)	3,861,517	160,028	4,021,545

Consolidated Cash Flow Statement

Year ended 31st July, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**440,644**	17,245
Adjustments for:			
Interest income	8	**(23,324)**	(21,580)
Revaluation deficit/(surplus) on investment properties	18	**(435,073)**	189,121
Negative goodwill recognised as income	8	**—**	(233)
Depreciation	10	**19,222**	19,137
Amortisation of prepaid land lease payments	10	**147**	147
Provision for bad and doubtful debts	10	**1,465**	—
Loss on disposal of a subsidiary		**—**	290
Write-back of provision for a completed property for sale	10	**—**	(2,533)
Finance costs	9	**42,470**	31,758
Share of profit of an associate		**(3,015)**	(25,841)
Provision for amounts due from associates		**35,953**	2,539
Write-back of provision for impairment of interest in a jointly-controlled entity		**—**	(42,555)
Operating profit before working capital changes		**78,489**	167,495
Decrease in completed properties for sale		**40,153**	152,971
Increase in debtors, deposits and prepayments		**(16,007)**	(64,690)
Increase in creditors and accruals, deposits received and deferred income, and short-term rental deposits received		**254,697**	55,717
Increase in long-term rental deposits received		**9,110**	1,481
Cash generated from operations		**366,442**	312,974
Hong Kong profits tax paid		**—**	(900)
Profits taxes paid outside Hong Kong		**(21,842)**	(13,480)
Profits taxes refund outside Hong Kong		**12,442**	—
Net cash inflow from operating activities		**357,042**	298,594

Consolidated Cash Flow Statement

Year ended 31st July, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	8	**1,302**	647
Purchases of property, plant and equipment	16	**(7,246)**	(7,274)
Additions to investment properties	18	**—**	(2,746)
Additions to properties under development		**(90,871)**	(49,502)
Proceeds from disposal of property, plant and equipment	16	**237**	180
Proceeds from disposal of a subsidiary	34	**—**	2,010
Advances to associates		**(21,587)**	(2,375)
Decrease/(increase) in pledged time deposits and bank balances		**1,892**	(5,667)
Net cash outflow from investing activities		**(116,273)**	(64,727)
CASH FLOWS FROM FINANCING ACTIVITIES			
Gross proceeds from issue of shares	30	**—**	133,029
Share issue expenses	30	**—**	(3,957)
New bank loans		**249,377**	164,954
Repayment of bank loans		**(487,865)**	(103,686)
New advances from a substantial shareholder		**98,730**	25,450
Repayment of advances to a substantial shareholder		**(65,259)**	(30,296)
Repayment to minority interests		**(16,109)**	—
Interest paid		**(70,315)**	(48,551)
Net cash inflow/(outflow) from financing activities		**(291,441)**	136,943
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(50,672)**	370,810
Cash and cash equivalents at beginning of year		**548,730**	177,508
Net foreign exchange difference		**(5,538)**	412
CASH AND CASH EQUIVALENTS AT END OF YEAR		**492,520**	548,730
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**459,223**	478,134
Non-pledged time deposits with original maturity of less than three months when acquired	25	**33,297**	70,596
		492,520	548,730

Balance Sheet

31st July, 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**3,634,251**	3,516,061
CURRENT ASSETS			
Deposits paid		**46,168**	170
Cash and cash equivalents	25	**7,668**	81,547
Total current assets		**53,836**	81,717
CURRENT LIABILITIES			
Creditors and accruals		**12,327**	2,841
NET CURRENT ASSETS		**41,509**	78,876
		3,675,760	3,594,937
CAPITAL AND RESERVES			
Issued capital	30	**587,296**	587,296
Reserves	32(b)	**3,088,464**	3,007,641
		3,675,760	3,594,937

Lam Kin Ngok, Peter
Director

Lee Po On
Director

Notes to Financial Statements

31st July, 2005

1. CORPORATE INFORMATION

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

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

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

The Group has resolved to early adopt all Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), in the financial year ended 31st July, 2005. All these early adopted HKFRSs are effective for accounting periods beginning on or after 1st January, 2005 for the preparation of these financial statements.

The following new and revised HKFRSs are relevant to the Group's financial statements and are adopted for the first time for the current year's financial statements. In accordance with the relevant requirements under these HKFRSs where permitted, comparative amounts of the financial statements for the year ended 31st July, 2004 have been restated.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets

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

HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 3	Revenue - Pre-completion Contracts for the Sale of Development Properties
HKAS-Int-15	Operating Leases - Incentives
HKAS-Int-21	Income Taxes - Recovery of Revalued Non-depreciable Assets

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

(a) HKAS 1 - Presentation of Financial Statements

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

- minority interests, at the balance sheet date are now included in the equity section of the balance sheets, and are separated from the equity attributable to the equity holders of the Company, and on the face of the consolidated income statement as allocations of profit or loss for the period between "profit or loss attributable to minority interests" and "profit or loss attributable to equity holders of the parent". A similar disclosure is required for total income and expense for the period currently presented in the consolidated statement of changes in equity, showing separately the total amounts attributable to equity holders of the Company and to minority interests;

- share of tax of an associate attributable to the Group, which was previously included in tax charge in the consolidated income statement, is now net off in the Group's share of profit and loss of an associate; and

- the Group is no longer permitted not to disclose comparative information on movements in property, plant and equipment.

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

Notes to Financial Statements

31st July, 2005

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

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

Service apartments

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

Properties under development

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

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

(c) HKAS 17 - Leases

Leasehold land

In prior years, the Group's leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses. Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments. Leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the respective lease terms. When the lease payments cannot be allocated reliably between the land and the buildings elements, the entire lease payments are included in the cost of leasehold land and buildings, as a finance lease in property, plant and equipment.

Notes to Financial Statements

31st July, 2005

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

(c) HKAS 17 - Leases (continued)

Leasehold land (continued)

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

The change in accounting policy has had no effect on the Group's previously reported consolidated income statement and accumulated losses. The effects of the above changes on comparative amounts as at 31st July, 2004 and the new accounting policy for prepaid land lease payments are summarised in note 3 and note 5 to the financial statements, respectively.

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

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

(e) HKAS 24 - Related Party Disclosures

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

(f) HKAS 32 and HKAS 39 - Financial Instruments

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

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

Notes to Financial Statements

31st July, 2005

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

(g) HKAS 40 - Investment Property

Investment properties

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

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

(h) HKFRS 2 – Share-based Payment

Employee share options

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

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

Notes to Financial Statements

31st July, 2005

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

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

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

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

Goodwill/negative goodwill

In prior years, goodwill/negative goodwill arising on acquisitions prior to 1st January, 2001 was eliminated against the consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business/entity.

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

Upon the adoption of HKFRS 3 and HKAS 36 in the current year, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, with impairment loss being recognised in the income statement of the year). Any impairment loss recognised for goodwill is not reversed in subsequent periods.

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

The transitional provisions of HKFRS 3 have required the Group to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated reserves) against retained earnings at 1st August, 2004. Goodwill previously eliminated against the consolidated capital reserve remains eliminated against the consolidated reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 3 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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

Notes to Financial Statements

31st July, 2005

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

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

Revenue recognition for the pre-sale of properties under development

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

(k) HKAS-Int-21 - Income Taxes - Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rates that would be applicable upon the sale of the investment properties.

Upon the adoption of HKAS-Int-21, deferred tax arising on the revaluation of the Group's investment properties is determined on the basis that these properties will be recovered through use. Accordingly, the relevant income tax rates have been applied to the calculation of deferred tax.

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

For those HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006, they have not been early adopted by the Group. The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operations and financial position.

Notes to Financial Statements

31st July, 2005

3. SUMMARY OF THE EFFECT OF CHANGES IN ACCOUNTING POLICIES

Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current year's and prior years' amounts presented), the Group has restated the opening balances of total equity as at 1st August, 2004 and 2003 to take into account the effect of changes in the accounting policies disclosed in note 2 to the financial statements. The previously reported loss for the year ended 31st July, 2004 has also been restated. The amount of adjustment for each financial statement line item affected and the impact on the basic and diluted earnings per share are summarised as follows:

(a) Consolidated income statement

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

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

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31st July, 2005

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

(a) Consolidated income statement (continued)

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

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31st July, 2005

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

(b) Consolidated balance sheet

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

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

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

Notes to Financial Statements

31st July, 2005

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

(b) Consolidated balance sheet (continued)

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

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

Notes to Financial Statements

31st July, 2005

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

(b) Consolidated balance sheet (continued)

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

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

Notes to Financial Statements

31st July, 2005

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

Income taxes

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

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

Notes to Financial Statements

31st July, 2005

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

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

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

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

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

Impairment test of assets and goodwill

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

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries and are now presented separately as allocations of profits or losses for the period in the consolidated income statement and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent.

Subsidiaries

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

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

Joint venture companies

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies (continued)

A joint venture company is treated as:

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

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

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

(d) a financial asset, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

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

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any accumulated impairment losses.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, less any impairment losses.

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

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

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Goodwill

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

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

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

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

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

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

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

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of, or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

Impairment of assets

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

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

A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

Prepaid land lease payments

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are owned by the Group or held by the Group under finance leases to earn rentals or for capital appreciation or both. Such properties are not depreciated, and are measured initially at cost including all transaction costs and, after initial recognition, carried at fair values, being their open market values on the basis of annual professional valuations preformed at the end of each financial year. Changes in the fair values of investment properties are recognised in the income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal of investment property, calculated as the differences between the net disposal proceeds and the carrying amount of the investment property, is recognised in the income statement in the period of the retirement or disposal.

Properties under development

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

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

Completed properties for sale

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

Debtors

Debtors are recognised and carried at original invoice amount less allowance for any uncollectible amounts.

An estimate for doubtful debts for debtors is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

Interest-bearing loans and borrowings

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

After its initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

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

Provisions

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) from the pre-sale of properties under development for pre-completion contracts entered into before 1st January, 2005, when a binding contract in respect of the sale of properties has been executed and the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, the attributable revenues and profits on the pre-sold portion of the properties under development, being a proportion of the total revenues and profits expected on completion, are recognised over the course of the development. The proportion used is calculated by reference to the lower of:

(i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and

(ii) the proportion of the actual cash received to the total sales consideration.

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

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

(d) service fee income is recognised when services are rendered; and

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Borrowing costs

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

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Paid leave carried forward

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

Pension schemes

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

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

Share-based payments

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

Equity-settled transactions

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Equity-settled transactions (continued)

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

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

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

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

Foreign currencies

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

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are not Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Hong Kong dollars) at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Notes to Financial Statements

31st July, 2005

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised directly in equity in the same or a different period.

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

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

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

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

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Company or its parent;

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

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

Business segments

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

Group

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

Notes to Financial Statements

31st July, 2005

6. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

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

Notes to Financial Statements

31st July, 2005

7. RELATED PARTY DISCLOSURES

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

(a) Transactions with related parties

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

Notes:

(i) Interest was charged on an advance made to an associate at the Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong plus 2% per annum. Further details of the advance are included in note 22 to the financial statements.

(ii) The annual rental charges were based on the terms stated in the respective lease agreements.

(iii) The related companies are subsidiaries of eSun Holdings Limited ("eSun") of which certain directors of the Company are also directors and key management personnel of eSun.

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

(b) Compensation of key management personnel of the Group

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

Notes to Financial Statements

31st July, 2005

8. TURNOVER, AND OTHER INCOME AND GAIN

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

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

Notes to Financial Statements

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9. FINANCE COSTS

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

10. PROFIT BEFORE TAX

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

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

Notes to Financial Statements

31st July, 2005

10. PROFIT BEFORE TAX (continued)

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

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

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

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

11. DIRECTORS' REMUNERATION

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

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

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

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

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

Notes to Financial Statements

31st July, 2005

11. DIRECTORS' REMUNERATION (continued)

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

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

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

Notes to Financial Statements

31st July, 2005

12. FIVE HIGHEST PAID EMPLOYEES

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

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

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

13. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2004: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Current tax – Hong Kong profits tax:		
Overprovision in prior years	**—**	(100)
Current tax – Mainland China income taxes:		
Charge for the year	**7,860**	38,470
Under/(over)provision in prior years	**(13,596)**	4,855
	(5,736)	43,225
Deferred tax (note 29)	**128,553**	(59,432)
Total tax charge/(credit) for the year	**122,817**	(16,207)

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

Notes to Financial Statements

31st July, 2005

13. TAX (continued)

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

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

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

Notes to Financial Statements

31st July, 2005

13. TAX (continued)

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

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

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

The profit for the year ended 31st July, 2005 attributable to equity holders of the parent dealt with in the financial statements of the Company was HK$80,823,000 (2004: loss for the year of HK$6,047,000) (note 32(b)).

15. EARNINGS PER SHARE

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

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

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

Notes to Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Service apartments HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost:							
At 1st August, 2003							
As previously reported	49,115	—	31	15,092	3,599	1,569	69,406
Effect of adopting HKFRSs	—	683,984	—	—	—	—	683,984
As restated	49,115	683,984	31	15,092	3,599	1,569	753,390
Additions	5	335	73	4,223	2,379	259	7,274
Disposals	—	—	—	(284)	—	(44)	(328)
At 31st July, 2004 (restated)	49,120	684,319	104	19,031	5,978	1,784	760,336
At 1st August, 2004							
As previously reported	49,120	—	104	19,031	5,978	1,784	76,017
Effect of adopting HKFRSs	—	684,319	—	—	—	—	684,319
As restated	49,120	684,319	104	19,031	5,978	1,784	760,336
Additions	—	—	4,350	973	1,670	253	7,246
Disposals	—	—	—	(108)	(280)	(15)	(403)
Exchange realignment	862	3,790	—	325	66	22	5,065
At 31st July, 2005	49,982	688,109	4,454	20,221	7,434	2,044	772,244

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

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

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

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31st July, 2005

17. PREPAID LAND LEASE PAYMENTS

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

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

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

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18. INVESTMENT PROPERTIES

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

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

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

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

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

Notes to Financial Statements

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19. PROPERTIES UNDER DEVELOPMENT

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

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

Notes to Financial Statements

31st July, 2005

19. PROPERTIES UNDER DEVELOPMENT (continued)

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

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

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

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

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

20. GOODWILL AND NEGATIVE GOODWILL

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

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

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

As detailed in note 2 to the financial statements, upon the adoption of HKFRS 3, the Group adopted the transitional provisions of HKFRS 3, and derecognised, at 1st August, 2004, the carrying amounts of negative goodwill (including the amount that remained in consolidated reserves) against retained earnings. Goodwill previously eliminated against consolidated reserves remains eliminated and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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20. GOODWILL AND NEGATIVE GOODWILL (continued)

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

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

21. INTERESTS IN SUBSIDIARIES

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

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

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21. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

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

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21. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

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

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

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

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

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22. INTERESTS IN ASSOCIATES

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

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

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

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

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

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

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22. INTERESTS IN ASSOCIATES (continued)

Details of the Group's associates are as follows:

Name	Business Structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Besto Investments Limited	Corporate	Hong Kong	Ordinary	25	Investment holding
Hankey Development Limited	Corporate	Hong Kong	Ordinary	50	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd.	Corporate	Mainland China	—*	48.3	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.	Corporate	Mainland China	—*	49.5	Property development and investment
Guangzhou Tianhe Baitao Culture and Entertainment Square Co., Ltd.	Corporate	Mainland China	—*	25	Property development and investment
Guangzhou Besto Real Estate Development Co., Ltd.	Corporate	Mainland China	—*	25	Property development and investment
Guangzhou New Wave Culture Plaza	Corporate	Mainland China	—*	25	Property development and investment

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

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

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22. INTERESTS IN ASSOCIATES (continued)

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

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

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

23. COMPLETED PROPERTIES FOR SALE

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

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24. DEBTORS, DEPOSITS AND PREPAYMENTS

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

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

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

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

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

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

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

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

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26. CREDITORS AND ACCRUALS

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

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

27. INTEREST-BEARING BANK LOANS, SECURED

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

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

The Group's bank loans are secured by:

(a) mortgages over certain of the Group's service apartments, with a carrying value of approximately HK$566,253,000 (2004: HK$578,416,000 (restated)) (note 16) at the balance sheet date;

(b) mortgages over certain of the Group's investment properties, with an aggregate carrying value of HK$3,073,000,000 (2004: HK$1,963,000,000 (restated)) (note 18) at the balance sheet date;

(c) the pledge of certain of the Group's properties under development with an aggregate carrying value of HK$443,678,000 (2004: HK$993,661,000 (restated)) (note 19) at the balance sheet date;

(d) mortgages over the entire registered capital of three (2004: two) of the Group's subsidiaries (note 21);

(e) the pledge of the Group's bank balances of HK$2,217,000 (2004: HK$6,871,000) (note 25) at the balance sheet date; and

(f) corporate guarantees provided by the Company.

28. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER

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

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

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29. DEFERRED TAX

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

Group

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

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

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30. SHARE CAPITAL

Shares

	Number of shares 2005 '000	**Nominal value 2005 HK$'000**	Number of shares 2004 '000	Nominal value 2004 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**7,000,000**	**700,000**	7,000,000	700,000
Issued and fully paid:				
Ordinary shares of HK$ 0.10 each	**5,872,956**	**587,296**	5,872,956	587,296

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

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

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

Notes:

(a) During the year ended 31st July, 2004, a rights issue of one rights share for every four existing shares held by members on the register of members on 23rd June, 2004 was made, at an issue price of HK$0.10 per rights share. This resulted in the issue of 1,174,591,295 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$117,460,000, which was used to meet the capital contribution requirement of the Group relating to property projects in Zhongshan in Mainland China and as working capital of the Group.

(b) During the year ended 31st July, 2004, the subscription rights attaching to 92,124,800 share options were exercised at the subscription price of HK$0.169 per share, resulting in the issue of 92,124,800 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$15,569,000. The net proceeds from the rights issue were used to meet the capital contribution requirements of the Group relating to property projects in the Guangdong Province in Mainland China and as additional working capital for the Group.

Share options

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

Notes to Financial Statements

31st July, 2005

31. SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2005

32. RESERVES

(a) Group

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

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

(b) Company

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

Notes to Financial Statements

31st July, 2005

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and bank balances, and short-term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Foreign exchange risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

Notes to Financial Statements

31st July, 2005

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Cash flow and fair value interest rate risk

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

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

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

(v) Price risk

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

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of a subsidiary

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

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

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

Notes to Financial Statements

31st July, 2005

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

(b) As lessee

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

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**104**	133
In the second to fifth years, inclusive	**—**	29
	104	162

36. CONTINGENT LIABILITIES

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

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

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

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

(c) Under the mortgage loan facilities provided by banks to the end-buyers of Eastern Place Phase I, Phase II and Phase III and Regents Park Phase I, the Group agreed to provide guarantees to certain banks to buy back the relevant property in case of default by the borrowers. The Group's obligation have gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. It is not practical to determine the outstanding amount of the contingent liabilities of the Group at the balance sheet date.

37. COMMITMENTS

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

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

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

Notes to Financial Statements

31st July, 2005

38. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of the Group's bank loans as at 31st July, 2004 and 2005 are reasonable approximation of their fair values.

Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at 31st July, 2004 and 2005 that are exposed to interest rate risk:

	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	Total	Effective interest rate
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	%
Floating rate instruments:						
At 31st July, 2005						
Pledged time deposits and bank balances	15,241	—	—	—	15,241	—
Cash and cash equivalents	492,520	—	—	—	492,520	0.27
Bank loans	218,527	319,623	336,184	76,731	951,065	5.50
At 31st July, 2004						
Pledged time deposits and bank balances	6,871	10,262	—	—	17,133	—
Cash and cash equivalents	548,730	—	—	—	548,730	0.12
Bank loans	89,227	405,983	399,007	288,603	1,182,820	4.24

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the early adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 23rd December, 2005 at 10:25 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 31st July, 2005.

2. To re-elect directors and to fix the directors' remuneration.

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

4. 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 earlier of:

   (i) the conclusion of the next Annual General Meeting of the Company;

   (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the Members 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 of 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 of 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 of 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 of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or the convertible bonds and the convertible note of the Company; or (iii) an issue of shares of the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue to employees of the Company and/or any of its subsidiaries of shares of the Company or rights to acquire shares of 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. 4(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. 4(A) and 4(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."

5. As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

"**THAT** the Articles of Association of the Company be amended by deleting the existing Article 116 in its entirety and substituting therefor the following new Article 116:

116. Notwithstanding any contractual or other terms on which any Director may be appointed or engaged, at each annual general meeting, the Directors for the time being shall retire from office by rotation once every three years since their last election provided always that they shall retire in accordance with the manner of retirement by rotation of Directors required by the Listing Rules or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time. A retiring Director shall retain office until the close of the meeting at which he retires, and shall be eligible for re-election thereat. Any Director appointed pursuant to Article 99 or 119 shall not be taken into account in determining the Directors who are to retire by rotation at such meeting."

6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"**THAT** the authorised share capital of the Company be increased from HK$700,000,000.00 to HK$800,000,000.00 by the creation of an additional 1,000,000,000 shares of HK$0.10 each and that such new shares, upon issue, shall rank pari passu in all respects with the existing shares of the Company."

By order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 18th November, 2005

Notice of Annual General Meeting

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a Member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Registrars in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.

3. Concerning item 2 of this Notice, Mr. Lam Hau Yin, Lester, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven and Mr. Wan Yee Hwa, Edward will retire at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election pursuant to Article 99 of the Company's Articles of Association. Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and Mr. Wong Yee Sui, Andrew will retire by rotation at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election pursuant to Article 116 of the Company's Articles of Association. Details of the above Directors are set out in the "Biographical Details of Directors and Senior Management" section of the Annual Report 2004-2005 of the Company.

4. A circular containing details regarding Ordinary Resolutions No. 4(A) to 4(C), Special Resolution No. 5 and Ordinary Resolution No. 6 above will be sent to Members together with the Company's Annual Report for 2004-2005.