



LAI SUN DEVELOPMENT

LAI SUN DEVELOPMENT COMPANY LIMITED

(Stock code: 488)

Annual Report 2005-2006

Contents

2	Corporate Profile
3	Corporate Information
4	Chairman's Statement
10	Report of the Directors
25	Corporate Governance Report
29	Report of the Auditors
30	Consolidated Income Statement
31	Consolidated Balance Sheet
33	Consolidated Statement of Changes in Equity
34	Consolidated Cash Flow Statement
36	Balance Sheet
37	Notes to Financial Statements
94	Notice of Annual General Meeting

Lai Sun Development Company Limited

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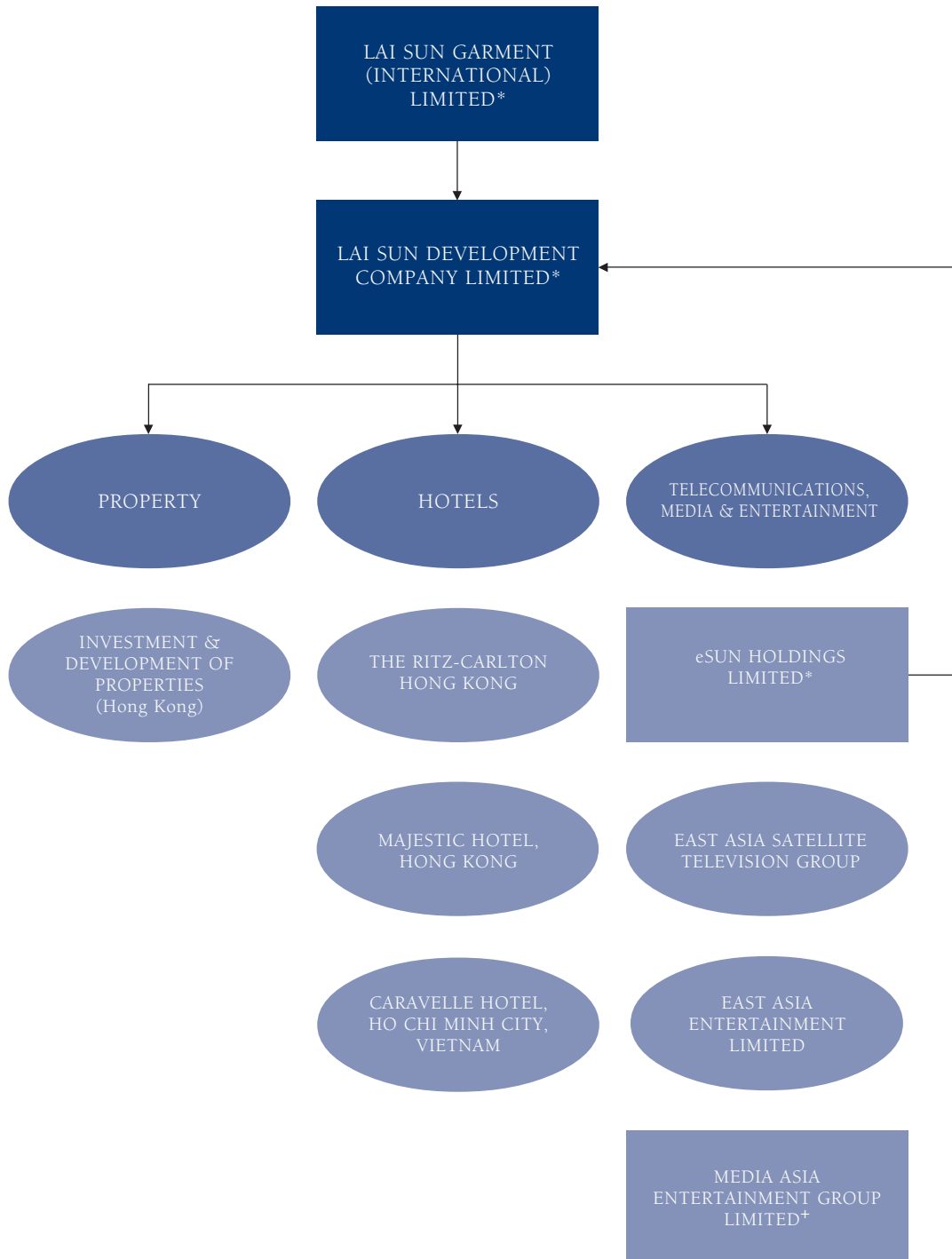
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Stock code on Hong Kong Stock Exchange: 488

Corporate Profile

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



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

+ Listed on SGX-SESDAQ of Singapore Stock Exchange

Corporate Information

Place of Incorporation

Hong Kong

Directors

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

Secretary and Registered Office

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

Qualified Accountant

Sze Ka Ming

Share Registrars

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

Auditors

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

Solicitors

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

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

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

Bankers

Citibank, N.A.
 Hang Seng Bank Limited
 Liu Chong Hing Bank Limited
 The Bank of East Asia, Limited
 The Hongkong and Shanghai Banking
 Corporation Limited
 Wing Hang Bank, Limited

Chairman's Statement



Chairman LAM Kin Ngok, Peter

RESULTS

Benefiting from the continued growth in the economy, the Group operations recorded steady growth. Turnover increased by approximately 1% to HK\$794 million from HK\$789 million in the year to 31st July, 2005. Gross profit rose 3% to HK\$523 million. However, profit from operating activities for the year amounted to HK\$542 million down from HK\$1,171 million for the previous financial year. The sharp decline in profit from operating activities was due to lower gain on revaluation of investment properties of HK\$315 million as compared to HK\$600 million in 2004/05 and the absence of reversal of impairment which in 2004/05 totalled HK\$386 million. Pre-tax profit for the year benefited from a gain of HK\$95 million on the deemed disposal of interest in an associate and the absence of the loss in the previous year of HK\$1,484 million arising from the Bonds Settlement and the eSun Settlement. After tax and minorities, the Group's audited consolidated net profit attributable to equity holders of the Company for the year ended 31st July, 2006 amounted to HK\$513 million as compared to a loss of HK\$706 million for the previous financial year.

DIVIDENDS

The Directors do not recommend payment of a dividend for the year ended 31st July, 2006 (2004/05: Nil).

Chairman's Statement

BUSINESS REVIEW

The Hong Kong economy continued to expand at a brisk pace during the year under review although in the second quarter of 2006 economic growth did moderate somewhat. Export growth slackened due to weaker consumer demand, particularly in the US market. Notwithstanding the moderation of growth, the Government, in its latest Economic Report, expects that economic growth in Hong Kong in 2006 could be at the high end of the range of the 4-5% growth it had previously forecast and Hong Kong's economic growth in 2006 is likely to be more in line with consensus estimates of around 6% real GDP growth.

Continued economic growth has underpinned the Hong Kong property market which otherwise might have been negatively affected by the rising trend in interest rates. In addition, the Group has benefited by the continued growth of tourism.

Property

The Group's investment property portfolio generated gross rental income of approximately HK\$265 million for the year, representing an increase of about 7% from the HK\$247 million generated in the previous financial year. The Group's investment portfolio has been and remains practically fully let.

The Group's share of property development profits from its associates for the year amounted to approximately HK\$55 million, largely from the sale of our Rolling Hills Phase II project. In the previous financial year, the Group's share of property development profits from its associates amounted to approximately HK\$167 million.

Hotels

In Hong Kong, both The Ritz-Carlton Hong Kong and the Majestic Hotel benefited from the growth in tourist arrivals. For the year under review, The Ritz-Carlton Hong Kong achieved an average occupancy of 84.7% and an average room rate of HK\$2,441 as compared to 84.2% and HK\$2,072 recorded in the previous year. For the Majestic Hotel, the corresponding figures were 93.3% and HK\$592 as compared to 91.7% and HK\$552 in the previous year. The Group's hotel operation in Vietnam has been affected by increased competition. Rising interest expenses also affected divisional profits. Overall, however, the Group's hotel operations performed well.

Chairman's Statement

eSun Holdings Limited ("eSun")

eSun in which the Group now has a 34.83% interest following a placement of 74,518,000 new eSun shares, announced a net profit of HK\$54 million for the six months ended 30th June, 2006 (2005: HK\$203 million). The decline reflects the much reduced gain on revaluation of the Group's investment property and absence of impairment reversal which has affected eSun's results as eSun is the Group's largest shareholder with a 40.8% interest. During the year, eSun's most important business focus was work related to the development of the Macau Studio City Project in Cotai, Macau. In April 2006, eSun entered into an agreement whereby it will initially dispose of 40% of its interest in its Cotai site in Macau to New Cotai, LLC ("New Cotai") and will develop the Macau Studio City Project jointly with New Cotai.

PROSPECTS

Property and hotels

The global economy has been resilient in the face of numerous potentially negative developments such as rising interest rates, high prices for oil and certain other key commodities and geopolitical uncertainties. While such resiliency persists, one can be sanguine about the economy of Hong Kong on which the Group's performance depends.

The Group continues to upgrade its investment properties and rebalance its tenant mix as tenancies expire so as to strengthen its rental income base. The Group has also been replenishing its land bank and continues to look for development projects of a niche nature where it can add value.

The Group is currently studying the possible redevelopment of The Ritz-Carlton Hong Kong site. Given the strong demand for prime office premises in Central and the dearth of new supply in this district, prime office rentals in Central are likely to remain firm and could increase further. The Ritz-Carlton Hong Kong site of approximately 15,000 square feet has excellent potential for redevelopment to provide not less than 225,000 square feet of office accommodation under current building regulations. According to the current lease terms neither land premium payment nor lease modification is required. Redevelopment of The Ritz-Carlton Hong Kong site would have impact on the Group's hotel division, but is likely to significantly enhance recurring rental income after completion of the redevelopment.



Causeway Bay
Plaza II



Cheung Sha Wan Plaza



Macau Studio City
(artist impression)



Majestic Hotel



The Ritz-Carlton
Hong Kong

Chairman's Statement

eSun

The Macau Studio City development will dramatically transform eSun, considering the financial scale of the project and hence will also be materially beneficial to the Group. The Group, through its equity interest in eSun, shall share eSun's profit arising from the disposal of 40% interest of the Cotai site subject to the completion of the transaction. In the long term the Group shall participate through eSun in the future recurring income from the development of the Cotai site.

eSun and its joint venture partner, New Cotai, are finalizing a Master Development Plan for the Macau Studio City Project in Cotai, Macau and upon approval from the Macau authorities, construction work is expected to commence in 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st July, 2006, the Group had consolidated net assets of approximately HK\$3,937 million (as at 31st July, 2005: HK\$3,432 million).

As at 31st July, 2006, the Group had outstanding borrowings of approximately HK\$2,547 million (as at 31st July, 2005: HK\$2,954 million) comprising (i) secured bank loans and other borrowings of approximately HK\$2,544 million and; (ii) an outstanding amount of approximately HK\$3 million, being residual amount payable under the Guaranteed Secured A Bonds due 2005 ("A Bonds"). The debt to equity ratio as expressed as a percentage of the total outstanding borrowings to consolidated net assets was approximately 65%. The maturity profile of the bank and other borrowings of HK\$2,544 million was spread over a period of more than 5 years with HK\$310 million repayable within 1 year, HK\$386 million repayable in the second year, HK\$1,809 million repayable in the third to fifth years and HK\$39 million repayable beyond 5 years.

As at 31st July, 2006, certain investment properties with carrying amounts of approximately HK\$4,113 million, certain property, plant and equipment with carrying amounts of approximately HK\$1,187 million, a prepaid land lease payment of approximately HK\$31 million and certain bank balances and time deposits with banks of approximately HK\$96 million were pledged to banks to secure banking facilities granted to the Group. At the same date, certain investment properties with carrying amounts of approximately HK\$5 million and certain property, plant and equipment with carrying amounts of approximately HK\$24 million were pledged to a bank to back up certain corporate guarantee

Chairman's Statement

issued by the Company in respect of a banking facility granted by the bank to a subsidiary of the Group. In addition, the entire holding of the shares of Peakflow Profits Limited together with its 10% shareholding in and its advance to Bayshore Development Group Limited, the joint venture company for the AIG Tower, and certain shares in subsidiaries held by the Group were also pledged to banks and other lender to secure loan facilities granted to the Group. Certain shares of associates held by the Group were pledged to a bank for a loan facility granted to certain associates of the Group. In addition, pursuant to the terms and conditions of the A Bonds, A Bonds were secured by charges over the Group's entire 10% interest in The Waterfront, Hong Kong. The secured bank and other borrowings were also secured by floating charges over certain assets held by the Group.

All of the Group's borrowings are denominated in Hong Kong dollars or US dollars. On the interest rate front, the majority of the bank borrowings are being maintained as floating rate debts.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group as at the balance sheet date are set out in note 34 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed a total of approximately 1,300 (as at 31st July, 2005: 1,300) employees as at 31st July, 2006. Pay rates of employees are maintained at competitive levels and salary adjustments are made on a performance related basis. Other staff benefits included a number of mandatory provident fund schemes for all the eligible employees, a free hospitalization insurance plan, subsidized medical care and subsidies for external educational and training programmes.

APPRECIATION

The Group has undergone an active rationalisation and development process during the year under review, and credit for the success of this process is due to the perseverance and unfailing efforts of the Company's management and staff. I would also like to thank the shareholders and business associates for their support during the year.

Lam Kin Ngok, Peter
Chairman

Hong Kong
10th November, 2006

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31st July, 2006.

PRINCIPAL ACTIVITIES

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

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

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

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st July, 2006 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 30 to 93.

No interim dividend was paid or declared by the Company in respect of the year ended 31st July, 2006 (2005: Nil).

The directors do not recommend the payment of a final dividend for the year ended 31st July, 2006 (2005: Nil) at the forthcoming Annual General Meeting.

SHARE CAPITAL

The directors announced on 30th June, 2006 the Capital Reduction to be effected by cancelling the paid-up capital to the extent of HK\$0.49 and to reduce the nominal value of all the ordinary shares from HK\$0.50 to HK\$0.01 each ("New Shares"). The special resolution was passed by shareholders at the Extraordinary General Meeting held on 24th July, 2006 and the High Court granted an Order confirming the Capital Reduction on 17th October, 2006. The Order and Minute of Reduction was registered by the Registrar of Companies on 18th October, 2006 when the Capital Reduction became effective. Trading in the New Shares commenced on 19th October, 2006.

Details of movement in the Company's share capital during the year and the Capital Reduction are set out in notes 28 and 36(a), respectively, to the financial statements.

Report of the Directors

DIRECTORS

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

Lam Kin Ngok, Peter (<i>Chairman</i>)	
Lau Shu Yan, Julius (<i>Chief Executive Officer</i>)	
Tam Kin Man, Kraven	(appointed on 18th November, 2005)
Cheung Wing Sum, Ambrose	(appointed on 18th November, 2005)
Lam Kin Ming	
U Po Chu	
David Tang*	
Lam Bing Kwan*	
Leung Shu Yin, William*	
Wu Shiu Kee, Keith	(resigned on 8th August, 2005)
Chiu Wai	(resigned on 18th November, 2005)
Shiu Kai Wah	(resigned on 18th November, 2005)

* *Independent non-executive directors*

In accordance with Article 102 of the Company's Articles of Association, Mr. Lam Kin Ngok, Peter and Mr. David Tang retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, the following directors of the Company are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

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

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

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

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

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

Furthermore, 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 businesses independent of, and at arm's length from, the businesses of such companies.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Lam Kin Ngok, Peter, Chairman, aged 49, has been an executive director of the Company since June 1977. He is also the deputy chairman of Lai Sun Garment (International) Limited ("LSG"), the chairman of Lai Fung Holdings Limited and an executive director of eSun Holdings Limited ("eSun") and Crocodile Garments Limited. eSun and LSG are substantial shareholders of the Company. Mr. Lam has extensive experience in the property development and investment business. He is also a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association, a council member of the Anglo-Hong Kong Trust and a non-official member of the Film Development Committee. Mr. Lam is interested, or deemed to be interested, within the meaning of Part XV of the Securities and Futures Ordinance, in 1,592,968,777 shares in the Company, representing approximately 12.50% of the issued share capital of the Company. Mr. Lam does not have a service contract with the Company. He will receive remuneration and 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. He will be subject to retirement by rotation once every three years since his last election and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the articles of association of the Company. In relation to the re-election as Director of the Company, there is no other information which is discloseable nor is/was involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under Rule 13.51(2) of the Listing Rules, and there is no other matter which needs to be brought to the attention of the shareholders of the Company. Mr. Lam is the son of Madam U Po Chu and is the younger brother of Mr. Lam Kin Ming.

Mr. Lau Shu Yan, Julius, Chief Executive Officer, aged 50, joined the Company as an executive director in July 1991. He is also an executive director of Lai Fung Holdings Limited. Mr. Lau has over 20 years' experience in the property and securities industries holding senior management positions. Prior to joining the Lai Sun Group, he was a director of Jones Lang Wootton Limited and subsequently Jardine Fleming Broking Limited. Mr. Lau is a director and a member of the Executive Committee of Real Estate Developers Association of Hong Kong.

Mr. Tam Kin Man, Kraven, aged 58, was appointed an executive director of the Company in November, 2005. He first joined the Lai Sun Group in 1989 and is currently an executive director of Lai Fung Holdings Limited and Lai Sun Garment (International) Limited ("LSG"). LSG is a substantial shareholder of the Company. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has 30 years' experience in property development, investment and management. He also has over 16 years' experience in the hospitality business including hotels, restaurants and clubs in Asia and North America.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive Directors (continued)

Mr. Cheung Wing Sum, Ambrose, aged 55, was appointed an executive director of the Company in November 2005. He is a business executive with a legal and banking background. He was a partner of Philip K H Wong, Kennedy Y H Wong & Co to which he remains as a consultant. He has over 24 years experience in mergers and acquisitions, management and development of hotels, hospitality and property industries. He was previously a partner of Woo, Kwan, Lee & Lo, a director of the Company and executive director of Sino Land Company Limited. Mr. Cheung is also an executive director of eSun Holdings Limited, a public company listed on the Main Board of The Stock Exchange of Hong Kong Limited and a substantial shareholder of the Company. Mr. Cheung is a Justice of the Peace and over the last 24 years he served on a number of public bodies and committees, which included the Legislative Council, the Urban Council and the Hong Kong Stadium Board of Governors. He is currently an elected member of the Shamshuipo District Council; the Chairman of Insurance Agents Registration Board and a member of the Tourism Strategy Group, Tourism Commission, Advisory Committee, Securities & Futures Commission and Advisory Committee, School of Hotel and Tourism Management, The Chinese University of Hong Kong.

Non-Executive Directors

Mr. Lam Kin Ming, aged 69, has been a director of the Company since June 1959. He is also the chairman of Lai Sun Garment (International) Limited (“LSG”), the chairman and chief executive officer of Crocodile Garments Limited, the deputy chairman of Lai Fung Holdings Limited and a non-executive director of eSun Holdings Limited (“eSun”). eSun and LSG are substantial shareholders of the Company. Mr. Lam has been involved in the management of garment business since 1958. He is the elder brother of Mr. Lam Kin Ngok, Peter.

Madam U Po Chu, aged 81, has been a director of the Company since December 1993. She is also a non-executive director of Lai Sun Garment (International) Limited (“LSG”), eSun Holdings Limited (“eSun”) and an executive director of Lai Fung Holdings Limited. eSun and LSG are substantial shareholders of the Company. Madam U has over 55 years’ experience in the garment manufacturing business and had been involved in the printing business since the mid-1960’s. In the early 1970’s, she started to expand the business to fabric bleaching and dyeing and in the late 1980’s became involved in property development and investment. Since early 1980s, Madam U began investing in the catering industry in Hong Kong. She is the mother of Mr. Lam Kin Ngok, Peter.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-Executive Directors (continued)

Mr. David Tang, aged 52, is an independent non-executive director of the Company. He is the founder of The China Clubs (in Hong Kong, Beijing and Singapore), Shanghai Tang Stores and The Pacific Cigar Company Ltd. He is also a director of First Pacific Company Limited in Hong Kong. In community service, he is the chairman of The Hong Kong Cancer Fund and president of the Hong Kong Down Syndrome Association. He holds an Honours Degree in Philosophy and Logic. In 1983/84, he taught at Peking University. He does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Tang does not have a service contract with the Company. He will be subject to retirement from office by rotation once every three years since his last election and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the articles of association of the Company. He will receive remuneration and 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. Tang does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. In relation to the re-election as Director of the Company, there is no other information which is discloseable nor is/was involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under Rule 13.51(2) of the Listing Rules, and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

14

Mr. Lam Bing Kwan, aged 57, was appointed an independent non-executive director of the Company in July 2002. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has substantial experience in the property development and investment in the Mainland of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently a non-executive director of Sino-i Technology Limited and Nan Hai Corporation Limited and an independent non-executive director of Lai Fung Holdings Limited and eForce Holdings Limited, all listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. Leung Shu Yin, William, aged 57, was appointed an independent non-executive director of the Company in September 2004. Mr. Leung is a certified public accountant, a member of the Hong Kong Securities Institute and a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is practising as a practising director of several Certified Public Accountants' firms in Hong Kong and is also an independent non-executive director of Lai Sun Garment (International) Limited, a substantial shareholder of the Company and several companies listed in Hong Kong.

Report of the Directors

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, holding company or fellow 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, 2006, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which would be required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (ii) entered into the register kept by the Company pursuant to Section 352 of the SFO (the "Register"); or (iii) notified to the Company and the Stock Exchange pursuant to the Code for Securities Transaction by Directors adopted by the Company:

(1) The Company

Name of Director	Personal Interests	Family Interests	Long positions in the shares				Total Percentage
			Corporate Interests	Other Interest	Capacity		
Lam Kin Ngok, Peter	10,099,585	Nil	1,582,869,192 (Note 1)	Nil	Beneficial owner	1,592,968,777	12.50%
Lau Shu Yan, Julius	1,200,000	Nil	Nil	Nil	Beneficial owner	1,200,000	0.0094%
U Po Chu (Note 2)	633,400	Nil	Nil	Nil	Beneficial owner	633,400	0.005%

Notes:

- Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary beneficially owned 1,582,869,192 shares. Mr. Lam Kin Ngok, Peter was deemed to be interested in such shares by virtue of his personal and deemed interest in approximately 37.69% of the issued share capital of LSG.
- Madam U Po Chu is the widow of the late Mr. Lim Por Yen, whose estate includes an interest of 197,859,550 shares in the Company.

Report of the Directors

DIRECTORS' INTERESTS (continued)

(2) Associated Corporation

eSun Holdings Limited ("eSun")

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

Note:

An employee share option scheme was adopted by eSun on 23rd December, 2005 and will remain in force for a period of 10 years. Options granted to the above directors as at 31st July, 2006 are set out below:

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

Save as disclosed above, as at 31st July, 2006, none of the directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS

As at 31st July, 2006, the following persons, one of whom is a director of the Company, had an interest in the following long positions and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Nature	Long positions in the shares	
			Number of Shares	Percentage
eSun Holdings Limited ("eSun")	Owner of controlled corporation	Corporate	5,200,000,000	40.80%
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	1,582,869,192	12.42%
Lam Kin Ngok, Peter	Beneficial owner	Personal and Corporate	1,592,968,777	12.50% (Note 1)
Nice Cheer Investment Limited ("Nice Cheer")	Beneficial owner	Corporate	781,346,935	6.13%
Xing Feng Investments Limited ("Xing Feng")	Owner of controlled corporation	Corporate	781,346,935	6.13% (Note 2)
Chen Din Hwa	Owner of controlled corporation	Corporate	1,047,079,435	8.21% (Note 3)
Chen Yang Foo Oi	Interest of spouse	Family	1,047,079,435	8.21% (Note 4)
Peter Cundill & Associates (Bermuda) Limited	Investment Manager	Corporate	903,108,000	7.09%

Notes:

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

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31st July, 2006.

Report of the Directors

CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

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

DETAILS OF PROPERTIES

The principal investment properties of the Group are as follows:

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

Report of the Directors

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

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st July, 2006, the Company did not have any reserves for distribution, in accordance with the provisions of Section 79B of the Companies Ordinance.

DONATIONS

During the year, the Group made charitable contributions totaling approximately HK\$1,582,000.

CONTINUING CONNECTED TRANSACTIONS

- (1) As reported in the annual report of the Company for the year ended 31st July, 2005, on 24th September, 2003, the Company entered into a tenancy agreement (the "Crocodile Transaction") with Crocodile Garments Limited ("CGL"), pursuant to which the Company had leased Unit 1001, 10th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong, to CGL for a period of 3 years commencing from 1st October, 2003 to 30th September, 2006 (both days inclusive) at a monthly rental of HK\$137,836 (exclusive of rates, government rent, air-conditioning and management charges and other outgoings).

Before 29th May, 2006, CGL was an associate of Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company. On 29th May, 2006, LSG disposed of a 51.01% interest in CGL to Mr. Lam Kin Ming, a non-executive director of the Company. Accordingly, the Crocodile Transaction remains a continuing connected transaction for the Company under Chapter 14A of the Listing Rules as CGL is an associate of a connected person of the Company.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS (continued)

- (2) The Company announced on 17th July, 2006 that the Company entered into an offer letter (the “Big Honor Transaction”) with Big Honor Asia Limited (“Big Honor”), pursuant to which the Company agreed to lease to Big Honor Unit 1105, 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong for a term of two years commencing from 1st July, 2006 to 30th June, 2008 at a monthly rental of HK\$85,830 (exclusive of government rates, government rent, management fee and air-conditioning charges, and equivalent to a monthly rental of HK\$10.00 per square foot).

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

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

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

The auditors of the Company have provided a confirmation in respect of the continuing connected transactions in accordance with the Listing Rules.

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31st July,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
TURNOVER	<u>793,807</u>	<u>788,799</u>	<u>2,109,513</u>	<u>906,590</u>	<u>934,720</u>
PROFIT/(LOSS) BEFORE TAX	<u>629,758</u>	<u>(373,750)</u>	<u>229,363</u>	<u>(1,096,461)</u>	<u>(2,462,251)</u>
Tax	<u>(80,656)</u>	<u>(197,446)</u>	<u>198,979</u>	<u>38,577</u>	<u>89,612</u>
PROFIT/(LOSS) FOR THE YEAR	<u>549,102</u>	<u>(571,196)</u>	<u>428,342</u>	<u>(1,057,884)</u>	<u>(2,372,639)</u>
Attributable to:					
Equity holders of the Company	<u>512,922</u>	<u>(705,962)</u>	<u>381,435</u>	<u>(1,085,494)</u>	<u>(2,396,234)</u>
Minority interests	<u>36,180</u>	<u>134,766</u>	<u>46,907</u>	<u>27,610</u>	<u>23,595</u>
	<u>549,102</u>	<u>(571,196)</u>	<u>428,342</u>	<u>(1,057,884)</u>	<u>(2,372,639)</u>

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets and liabilities

	As at 31st July,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Property, plant and equipment	1,265,621	1,298,496	1,303,627	1,797,072	1,262,919
Prepaid land lease payments	31,176	14,550	29,915	30,970	32,024
Investment properties	4,124,700	3,808,700	3,207,980	4,503,410	4,987,860
Properties under development	61,197	1,462	1,424	1,400	116,592
Goodwill	4,005	6,294	8,583	92,980	—
Interests in associates	1,115,830	1,020,080	1,142,822	966,080	2,082,375
Available-for-sale investments	519,172	559,748	287,245	357,791	173,531
Long term prepayment	—	—	—	—	194,000
Pledged bank balances and time deposits	95,652	62,341	—	—	70,053
Pension scheme assets	—	—	—	18,298	—
Current assets	<u>518,160</u>	<u>601,465</u>	<u>760,469</u>	<u>386,620</u>	<u>394,684</u>
TOTAL ASSETS	<u>7,735,513</u>	<u>7,373,136</u>	<u>6,742,065</u>	<u>8,154,621</u>	<u>9,314,038</u>
Current liabilities	(522,252)	(402,819)	(6,430,397)	(8,040,621)	(6,587,485)
Interest-bearing bank and other borrowings	(2,234,551)	(2,583,509)	—	—	(1,493,000)
Deferred tax	(625,100)	(551,756)	(361,262)	(596,596)	(564,414)
Long term rental deposits received	(31,605)	(36,891)	(29,122)	(40,294)	(62,981)
Provision for premium on loan repayment	—	—	—	—	(52,500)
TOTAL LIABILITIES	<u>(3,413,508)</u>	<u>(3,574,975)</u>	<u>(6,820,781)</u>	<u>(8,677,511)</u>	<u>(8,760,380)</u>
MINORITY INTERESTS	<u>(384,881)</u>	<u>(366,090)</u>	<u>(389,722)</u>	<u>(360,013)</u>	<u>(352,285)</u>
NET ASSETS/ (DEFICIENCY IN ASSETS) ATTRIBUTABLE TO EQUITY HOLDERS OF COMPANY	<u>3,937,124</u>	<u>3,432,071</u>	<u>(468,438)</u>	<u>(882,903)</u>	<u>201,373</u>

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

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

As at 31st July, 2006, the aggregate amount of financial assistance and guarantees given for facilities granted to affiliated companies has exceeded 8% under the assets ratio as defined under the Listing Rules. In compliance with paragraph 13.22 of Chapter 13, the proforma combined balance sheet of the affiliated companies at 31st July, 2006 is disclosed as follows:

	HK\$'000
Property, plant and equipment	492,183
Prepaid land lease payments	699
Investment properties	390,000
Film rights	179,039
Properties under development	258,329
Interests in associates	1,751,680
Interests in jointly controlled entities	299
Available-for-sale investments	32,041
Amounts due from shareholders	28,860
Net current assets	<u>447,797</u>
Total assets less current liabilities	3,580,927
Long term borrowings	(571,845)
Rental deposits received	(1,484)
Land premium payable	(474)
Deferred tax	(67,111)
Deferred income	(42,535)
Amounts due to shareholders	<u>(902,322)</u>
	<u>(1,585,771)</u>
	<u>1,995,156</u>
CAPITAL AND RESERVES	
Issued capital	418,133
Share premium account	3,390,169
Contributed surplus	891,289
Investment revaluation reserve	33,915
Share option reserve	4,766
Exchange fluctuation reserve	11,360
Accumulated losses	<u>(2,754,672)</u>
	1,994,960
Minority interests	<u>196</u>
	<u>1,995,156</u>

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st July, 2006, 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 latest practicable date prior to the issue of this report, the Company has complied with the sufficiency of public float requirement under the Listing Rules.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 25 to 28 of the Annual Report 2005-2006.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDITORS

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

On behalf of the Board

Lam Kin Ngok, Peter
Chairman

Hong Kong
10th November, 2006

Corporate Governance Report

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

(1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the Annual Report save for the deviations from code provisions A.4.1 and E.1.2.

Code Provision A.4.1

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

Code Provision E.1.2

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the annual general meeting of the Company held on 23rd December, 2005.

(2) DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a Code for Securities Transactions by Directors (the “Securities Code”) on terms no less exacting than the required standard set out in the Model Code in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors who have confirmed their compliance with the required standard set out in the Securities Code during the year ended 31st July, 2006.

(3) BOARD OF DIRECTORS

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

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

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

Corporate Governance Report

(3) BOARD OF DIRECTORS (continued)

(3.3) The Board met four times during the year ended 31st July, 2006. The attendance record of individual directors at these board meetings is set out in the following table:

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

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

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

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

(4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of Chairman and Chief Executive Officer be separated and not performed by the same individual.

During the year under review, Mr. Lam Kin Ngok, Peter was the Chairman of the Company while Mr. Lau Shu Yan, Julius was appointed Chief Executive Officer of the Company on 1st November, 2005.

(5) NON-EXECUTIVE DIRECTORS

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

Corporate Governance Report

(6) REMUNERATION COMMITTEE

- (6.1) The Board established a Remuneration Committee on 18th November, 2005, which comprises three independent non-executive Directors, namely, Messrs. Leung Shu Yin, William (Chairman), David Tang and Lam Bing Kwan, and Mr. Lee Po On.
- (6.2) The Remuneration Committee has been charged with the responsibility to recommend to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all directors and senior management, including but not limited to directors' fee, salaries, allowances, bonuses, share options, benefits in kind and pension right, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.
- (6.3) The Remuneration Committee held one meeting on 10th November, 2006 to discuss remuneration-related matters. Messrs. Leung Shu Yin, William, Lam Bing Kwan and Lee Po On attended the aforesaid meeting.

(7) NOMINATION OF DIRECTORS

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

(8) AUDITORS' REMUNERATION

The auditors of the Company, Ernst & Young, received audit fees amounting to HK\$2,080,000 for the year under review. The Company also engaged Ernst & Young at a remuneration of HK\$600,000 for issuance of certain letters of comfort and audited financial statements of certain subsidiaries in relation to the capital reduction exercise of the Company as detailed in note 36(a) to the financial statements.

(9) AUDIT COMMITTEE

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

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

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

- (9.2) The Audit Committee held two meetings during the year under review. All members of the Audit Committee, namely, Messrs. David Tang, Lam Bing Kwan and Leung Shu Yin, William, attended all the meetings.
- (9.3) The Audit Committee reviewed the half-yearly and annual results of the Company, and other matters related to the financial and accounting policies and practices of the Company.

Corporate Governance Report

(10) FINANCIAL REPORTING

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

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

(11) INTERNAL CONTROL

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

Report of the Auditors



To the members

Lai Sun Development Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 30 to 93 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare 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, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing 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, 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

10th November, 2006

Consolidated Income Statement

Year ended 31st July, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
TURNOVER	6	793,807	788,799
Cost of sales		<u>(270,574)</u>	<u>(278,885)</u>
Gross profit		523,233	509,914
Other revenue	6	36,656	12,556
Administrative expenses		(268,980)	(263,785)
Other operating expenses		(61,075)	(64,909)
Fair value gain on investment properties	16	315,091	599,549
Reversal of impairment of/(impairment of) available-for-sale debt investments		(2,969)	209,478
Reversal of impairment of property, plant and equipment	14	—	176,396
Loss on disposal of subsidiaries		—	<u>(7,752)</u>
PROFIT FROM OPERATING ACTIVITIES	7	541,956	1,171,447
Finance costs	8	(156,943)	(115,048)
Loss arising from the Bonds Settlement and the eSun Settlement, net	20 & 26(i)	—	(1,483,527)
Reversal of provision for/(provision for) contingent liabilities to bondholders	26(ii)	4,848	(136,525)
Gain on cancellation of bond payables	26(iii)	37,492	32,567
Share of profits and losses of associates		107,752	169,390
Reversal of impairment of associates		—	4,365
Gain/(loss) on deemed disposal of interest in an associate		<u>94,653</u>	<u>(16,419)</u>
PROFIT/(LOSS) BEFORE TAX		629,758	(373,750)
Tax	11	<u>(80,656)</u>	<u>(197,446)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>549,102</u>	<u>(571,196)</u>
Attributable to:			
Equity holders of the Company	12	512,922	(705,962)
Minority interests		<u>36,180</u>	<u>134,766</u>
		<u>549,102</u>	<u>(571,196)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		<u>HK\$0.04</u>	<u>(HK\$0.07)</u>
Diluted		<u>HK\$0.04</u>	<u>N/A</u>

Consolidated Balance Sheet

31st July, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,265,621	1,298,496
Prepaid land lease payments	15	31,176	14,550
Investment properties	16	4,124,700	3,808,700
Properties under development	17	61,197	1,462
Goodwill	18	4,005	6,294
Interests in associates	20	1,115,830	1,020,080
Available-for-sale investments	21	519,172	559,748
Pledged bank balances and time deposits	24	95,652	62,341
Total non-current assets		<u>7,217,353</u>	<u>6,771,671</u>
CURRENT ASSETS			
Completed properties for sale	22	2,350	2,350
Inventories		5,323	5,064
Debtors and deposits	23(a)	108,763	139,563
Financial assets at fair value through profit or loss		—	17
Pledged bank balances and time deposits	24	—	8,020
Cash and cash equivalents	24	401,724	446,451
Total current assets		<u>518,160</u>	<u>601,465</u>
CURRENT LIABILITIES			
Creditors, deposits received and accruals	23(b)	200,437	250,337
Tax payable		9,314	7,095
Interest-bearing bank and other borrowings	25	309,841	105,235
Bonds payable	26	2,660	40,152
Total current liabilities		<u>522,252</u>	<u>402,819</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(4,092)</u>	<u>198,646</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,213,261</u>	<u>6,970,317</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	(2,234,551)	(2,583,509)
Deferred tax	27	(625,100)	(551,756)
Long term rental deposits received		(31,605)	(36,891)
Total non-current liabilities		<u>(2,891,256)</u>	<u>(3,172,156)</u>
		<u>4,322,005</u>	<u>3,798,161</u>

Consolidated Balance Sheet

31st July, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	28	6,373,021	6,373,021
Share premium account		5,858,164	5,858,164
Investment revaluation reserve		106,111	111,598
Share option reserve		1,660	—
Capital redemption reserve		1,200,000	1,200,000
Exchange fluctuation reserve		38,430	42,472
Accumulated losses	29(a)	(9,640,262)	(10,153,184)
		<u>3,937,124</u>	<u>3,432,071</u>
Minority interests		<u>384,881</u>	<u>366,090</u>
		<u>4,322,005</u>	<u>3,798,161</u>

Lam Kin Ngok, Peter
Director

Lau Shu Yan, Julius
Director

Consolidated Statement of Changes in Equity

Year ended 31st July, 2006

Notes	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Investment revaluation reserve	Share option reserve	Capital redemption reserve	Exchange fluctuation reserve	Accumulated losses	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	1,873,001	5,858,164	—	—	1,200,000	47,619	(9,447,222)	(468,438)	389,722	(78,716)
At 1st August, 2004										
Exchange realignments:										
Subsidiaries	—	—	—	—	—	64	—	64	(9)	55
Associates	—	—	—	—	—	(58)	—	(58)	—	(58)
Changes in fair values of available-for-sale investments	—	—	93,000	—	—	—	—	93,000	—	93,000
Share of reserve movements of associates	—	—	21,048	—	—	—	—	21,048	—	21,048
Net income/(expense) recognised directly in equity	—	—	114,048	—	—	6	—	114,054	(9)	114,045
Release upon disposal of subsidiaries	32(b)	—	—	—	—	(35)	—	(35)	(25,303)	(25,338)
Release upon deemed disposal of an associate	—	—	(2,450)	—	—	(5,118)	—	(7,568)	—	(7,568)
Profit/(loss) for the year	—	—	—	—	—	—	(705,962)	(705,962)	134,766	(571,196)
Total recognised income and expense for the year	—	—	111,598	—	—	(5,147)	(705,962)	(599,511)	109,454	(490,057)
Issue of settlement shares	28	4,500,020	—	—	—	—	—	4,500,020	—	4,500,020
Repayment to minority shareholders	—	—	—	—	—	—	—	—	(121,801)	(121,801)
Dividend paid to minority shareholders	—	—	—	—	—	—	—	—	(11,285)	(11,285)
At 31st July, 2005 and 1st August, 2005	6,373,021	5,858,164	111,598	—	1,200,000	42,472	(10,153,184)	3,432,071	366,090	3,798,161
Exchange realignments:										
Subsidiaries	—	—	—	—	—	(72)	—	(72)	—	(72)
Associates	—	—	—	—	—	245	—	245	—	245
Changes in fair values of available-for-sale investments	—	—	(998)	—	—	—	—	(998)	—	(998)
Share of reserve movements of associates	—	—	(2,543)	1,660	—	—	—	(883)	—	(883)
Net income/(expense) recognised directly in equity	—	—	(3,541)	1,660	—	173	—	(1,708)	—	(1,708)
Release upon deemed disposal of an associate	—	—	(1,946)	—	—	(4,215)	—	(6,161)	—	(6,161)
Profit for the year	—	—	—	—	—	—	512,922	512,922	36,180	549,102
Total recognised income and expense for the year	—	—	(5,487)	1,660	—	(4,042)	512,922	505,053	36,180	541,233
Repayment to minority shareholders	—	—	—	—	—	—	—	—	(35,000)	(35,000)
Capital contribution by a minority shareholder	—	—	—	—	—	—	—	—	17,611	17,611
At 31st July, 2006	6,373,021	5,858,164	106,111	1,660	1,200,000	38,430	(9,640,262)	3,937,124	384,881	4,322,005

Consolidated Cash Flow Statement

Year ended 31st July, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		629,758	(373,750)
Adjustments for:			
Finance costs	8	156,943	115,048
Loss arising from the Bonds Settlement and the eSun Settlement, net		—	1,483,527
Provision for/(reversal of provision for) contingent liabilities to bondholders		(4,848)	136,525
Gain on cancellation of bond payables		(37,492)	(32,567)
Share of profits and losses of associates		(107,752)	(169,390)
Reversal of impairment of associates		—	(4,365)
Loss/(gain) on deemed disposal of interest in an associate		(94,653)	16,419
Fair value gain on investment properties	16	(315,091)	(599,549)
Impairment of/(reversal of impairment of) available-for-sale debt investments		2,969	(209,478)
Reversal of impairment of property, plant and equipment	14	—	(176,396)
Loss on disposal of subsidiaries	32(b)	—	7,752
Depreciation	7	63,894	63,898
Amortisation of prepaid land lease payments	7	985	1,010
Loss/(gain) on disposal of items of property, plant and equipment	7	(567)	271
Impairment of goodwill	7	2,289	2,289
Reversal of provision for doubtful debts	7	—	(650)
Write-off of bad debts	7	—	1,756
Fair value loss on financial assets at fair value through profit or loss, net	7	—	167
Interest income	6	(30,198)	(5,752)
Dividend income from unlisted available-for-sale equity investments	6	(711)	(671)
Operating profit before working capital changes		265,526	256,094
Increase in completed properties for sale		—	(920)
Increase in inventories		(259)	(300)
Decrease in debtors and deposits		19,832	17,257
Increase/(decrease) in creditors, deposits received and accruals		13,725	(9,630)
Cash generated from operations		298,824	262,501
Interest received		30,198	5,752
Interest paid on bank and other borrowings		(144,712)	(109,586)
Repayment of premium on loan repayment		—	(5,000)
Hong Kong profits tax paid		(3,933)	(11,525)
Overseas taxes paid		(1,160)	—
Net cash inflow from operating activities		179,217	142,142

Consolidated Cash Flow Statement

Year ended 31st July, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(35,425)	(10,878)
Additions to investment properties	16	(909)	(1,171)
Additions to properties under development	17	(59,735)	(38)
Proceeds from disposal of items of property, plant and equipment		4,973	2,005
Proceeds from disposal of financial assets at fair value through profit or loss		17	40
Disposal of subsidiaries	32(b)	—	90,155
Repayment from associates		324,583	68,500
Repayment from investee companies		36,609	29,575
Dividends received from unlisted available-for-sale equity investments	6	711	671
Decrease/(increase) in pledged bank balances and time deposits		(25,291)	27,296
Net cash inflow from investing activities		<u>245,533</u>	<u>206,155</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		—	1,207,400
Repayment of bank and other borrowings		(144,352)	(839,764)
Repayment of exchangeable bonds payable		—	(123,081)
Repayment of convertible bonds payable		—	(176,670)
Repayment to GPEL		(225,000)	(20,000)
Repayment of the A Bonds		—	(263,398)
Payment of contingent liabilities to bondholders		(64,592)	(14,725)
Bank charges and refinancing charges		(734)	(69,023)
Dividend paid to minority shareholders		—	(11,285)
Repayment to minority shareholders		(35,000)	(121,801)
Net cash outflow from financing activities		<u>(469,678)</u>	<u>(432,347)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(44,928)	(84,050)
Cash and cash equivalents at beginning of year		446,451	530,446
Effect of foreign exchange rate changes, net		201	55
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>401,724</u>	<u>446,451</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	129,978	111,110
Non-pledged time deposits with original maturity of less than three months when acquired	24	271,746	335,341
		<u>401,724</u>	<u>446,451</u>

Balance Sheet

31st July, 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	20,927	2,062
Investment properties	16	2,797,500	2,591,600
Interests in subsidiaries	19	1,359,132	1,507,220
Interests in associates	20	351,826	354,800
Available-for-sale investments	21	60,055	104,544
Pledged bank balances and time deposits	24	95,652	62,341
Total non-current assets		<u>4,685,092</u>	<u>4,622,567</u>
CURRENT ASSETS			
Debtors and deposits		45,159	58,783
Pledged bank balances and time deposits	24	—	8,020
Cash and cash equivalents	24	220,530	226,468
Total current assets		<u>265,689</u>	<u>293,271</u>
CURRENT LIABILITIES			
Creditors, deposits received and accruals		112,776	165,376
Interest-bearing bank and other borrowings	25	85,000	57,500
Total current liabilities		<u>197,776</u>	<u>222,876</u>
NET CURRENT ASSETS			
		<u>67,913</u>	<u>70,395</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		4,753,005	4,692,962
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	(1,822,600)	(1,907,600)
Deferred tax	27	(437,572)	(393,856)
Long term rental deposits received		(22,332)	(27,613)
Total non-current liabilities		<u>(2,282,504)</u>	<u>(2,329,069)</u>
		<u>2,470,501</u>	<u>2,363,893</u>
EQUITY			
Issued capital	28	6,373,021	6,373,021
Reserves	29(b)	(3,902,520)	(4,009,128)
		<u>2,470,501</u>	<u>2,363,893</u>

Notes to Financial Statements

31st July, 2006

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

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

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

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

Notes to Financial Statements

31st July, 2006

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

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

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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

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

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

Impairment of assets

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

40

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

Properties under development

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

Completed properties for sale

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

42

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale investments

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

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale investments

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

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

Derecognition of financial assets

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

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

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest-bearing bank and other borrowings

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

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

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

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) from the sale of completed properties developed for sale, upon the establishment of a binding contract in respect of the sale of properties, and the issue of an occupation permit by the government of the Hong Kong Special Administrative Region or a certificate of compliance by the relevant government authorities, whichever is later;
- (b) rental and property management fee income, in the period in which the properties are let out and on the straight-line basis over the lease terms;
- (c) service income from hotel and restaurant operations and the provision of other related services, in the period in which such services are rendered;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Retirement benefits

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits (continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

Income tax

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

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

Notes to Financial Statements

31st July, 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

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

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

Impairment test of assets and goodwill

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

50

4. SEGMENT INFORMATION

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

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

- (a) the property development and sales segment engages in property development and the sale of properties;
- (b) the property investment segment engages in the leasing of and sale of investment properties;
- (c) the hotel and restaurant operations segment engages in the operation of hotels and restaurants; and
- (d) the "others" segment comprises the Group's property management services business, which provides property management and security services to residential, office, industrial and commercial properties.

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

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

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

(a) Business segments

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

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

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

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

(b) Geographical segments

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

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

Notes to Financial Statements

31st July, 2006

5. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

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

Notes:

- (i) The rental income and building management fee received from related companies, of which certain directors of the Company are also the directors of these related companies, was based on terms stated in the respective lease agreements.
- (ii) The rental income and building management fee received from the eSun Group and an associate of eSun was based on terms stated in the respective lease agreements.
- (iii) The terms of the interest paid or payable to GPEL, a subsidiary of eSun, are detailed in note 20 to the financial statements.

(b) Compensation of key management personnel of the Group

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

Notes to Financial Statements

31st July, 2006

6. TURNOVER AND OTHER REVENUE

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

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

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

Notes to Financial Statements

31st July, 2006

7. PROFIT FROM OPERATING ACTIVITIES

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

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

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

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

Notes to Financial Statements

31st July, 2006

8. FINANCE COSTS

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

9. DIRECTORS' REMUNERATION

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

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

Notes to Financial Statements

31st July, 2006

9. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2006 HK\$'000	2005 HK\$'000
David Tang	200	200
Lam Bing Kwan	60	60
Leung Shu Yin, William	60	60
	<u>320</u>	<u>320</u>

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

(b) Executive directors and non-executive directors

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

Notes to Financial Statements

31st July, 2006

9. DIRECTORS' REMUNERATION (continued)

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

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

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

Notes to Financial Statements

31st July, 2006

10. EMPLOYEES' REMUNERATION

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

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

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

	Number of employees	
	2006	2005
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$2,500,001 to HK\$3,000,000	1	1
	<u>2</u>	<u>2</u>

11. TAX

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

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

Notes to Financial Statements

31st July, 2006

11. TAX (continued)

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT Group

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

Notes to Financial Statements

31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

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

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

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

Notes to Financial Statements

31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

Company

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

Notes to Financial Statements

31st July, 2006

15. PREPAID LAND LEASE PAYMENTS

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

66

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

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

16. INVESTMENT PROPERTIES

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

Notes to Financial Statements

31st July, 2006

16. INVESTMENT PROPERTIES (continued)

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

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

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

17. PROPERTIES UNDER DEVELOPMENT

	Group	
	2006	2005
	HK\$'000	HK\$'000
At beginning of year	1,462	1,424
Additions	<u>59,735</u>	<u>38</u>
At end of year	<u>61,197</u>	<u>1,462</u>

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Long leases	59,735	—
Medium-term leases	<u>1,462</u>	<u>1,462</u>
	<u>61,197</u>	<u>1,462</u>

68

18. GOODWILL

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

Notes to Financial Statements

31st July, 2006

18. GOODWILL (continued)

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

19. INTERESTS IN SUBSIDIARIES

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

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

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

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

Notes to Financial Statements

31st July, 2006

19. INTERESTS IN SUBSIDIARIES (continued)

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

Notes to Financial Statements

31st July, 2006

19. INTERESTS IN SUBSIDIARIES (continued)

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

* This subsidiary has registered rather than issued share capital.

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

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

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

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

Notes to Financial Statements

31st July, 2006

19. INTERESTS IN SUBSIDIARIES (continued)

Disposal of Furama Resort

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

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

20. INTERESTS IN ASSOCIATES

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

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

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

Notes to Financial Statements

31st July, 2006

20. INTERESTS IN ASSOCIATES (continued)

The eSun Loan

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

20. INTERESTS IN ASSOCIATES (continued)

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

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

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

Notes to Financial Statements

31st July, 2006

20. INTERESTS IN ASSOCIATES (continued)

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

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

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

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

The eSun Group

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

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

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

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

Notes to Financial Statements

31st July, 2006

20. INTERESTS IN ASSOCIATES (continued)

The eSun Group (continued)

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

21. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

22. COMPLETED PROPERTIES FOR SALE

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

Notes to Financial Statements

31st July, 2006

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

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

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

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

Pledged bank balances and time deposits are classified as follows:

78

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

Notes to Financial Statements

31st July, 2006

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

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

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

Notes to Financial Statements

31st July, 2006

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

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

- (i) fixed charges over the Group's hotel properties, and certain leasehold buildings, investment properties and prepaid land lease payments;
- (ii) floating charges over certain assets held by the Group;
- (iii) charges over certain bank balances and time deposits of the Group (note 24); and
- (iv) shares of certain subsidiaries held by the Group.

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

26. BONDS PAYABLE

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

Notes to Financial Statements

31st July, 2006

26. BONDS PAYABLE (continued)

Notes:

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

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

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

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

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

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

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

- (a) the net proceeds received from the Furama Resort Disposal which was completed on 4th July, 2005;
- (b) the distribution made by Porchester Assets Limited, a subsidiary of the Company and the holding company of CCHJV, following partial repayment of a shareholder loan owed by CCHJV which was funded by the proceeds of a bank loan facility arranged by CCHJV; and
- (c) various other distributions from the Three Planned Sale Interests.

Notes to Financial Statements

31st July, 2006

26. BONDS PAYABLE (continued)

Notes: (continued)

(ii) (continued)

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

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

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

26. BONDS PAYABLE (continued)

Notes: (continued)

(iii) (continued)

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

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

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

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

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

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

27. DEFERRED TAX

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

Group

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

Notes to Financial Statements

31st July, 2006

27. DEFERRED TAX (continued)

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

Company

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

84

28. SHARE CAPITAL

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

Notes to Financial Statements

31st July, 2006

28. SHARE CAPITAL (continued)

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

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

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

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

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

(b) Company

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

Notes to Financial Statements

31st July, 2006

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group has adopted relatively conservative strategies on its risk management and the Group has not used any derivatives and other instruments for hedging purposes during the year. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

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

(ii) Foreign currency risk

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

86

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

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

(iii) Credit risk

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

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

(iv) Liquidity risk

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

Notes to Financial Statements

31st July, 2006

31. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of all the financial assets and financial liabilities as at 31st July, 2006 are reasonable approximation of their fair values.

Interest rate risk

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at 31st July, 2006 and 2005 that are exposed to interest rate risk:

At 31st July, 2006

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

At 31st July, 2005

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

Notes to Financial Statements

31st July, 2006

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

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

- (i) During the year, the outstanding amount of the B Bonds was cancelled by HK\$37,492,000 (2005: HK\$32,567,000) upon the holders of the B Bonds transferring or electing to retain the Second Tranche Shares during the year. Further details of the cancellation are set out in note 26(iii) to the financial statements.
- (ii) During the year, the addition of prepaid land lease payment of HK\$17,611,000 was paid by a minority shareholder of a subsidiary in the form of capital contribution, which did not result in any cash flow to the Group.
- (iii) In the prior year, pursuant to the Bonds Settlement and the eSun Settlement as detailed in notes 26 and 20 to the financial statements, respectively, the Group settled the Bonds and the loan due to GPEL by (i) the issue of the A Bonds of approximately HK\$266 million; (ii) the issue of the B Bonds of approximately HK\$70 million; (iii) the refinancing of the eSun Loan of HK\$225 million; and (iv) the issue of approximately 3,800 million of the Bonds Settlement Shares and of 5,200 million of the eSun Settlement Shares, at a price of HK\$0.50 per share. These transactions did not result in any cash flow to the Group during the year ended 31st July, 2005.
- (iv) In the prior year, a provision of HK\$29,375,000 for premium on loan repayment was refinanced as other borrowings with an extended repayment term.

88

(b) Disposal of subsidiaries

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

Notes to Financial Statements

31st July, 2006

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

(b) Disposal of subsidiaries (continued)

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

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

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

33. COMMITMENTS

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

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

Notes to Financial Statements

31st July, 2006

34. CONTINGENT LIABILITIES

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

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

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

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

Notes to Financial Statements

31st July, 2006

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

(b) As lessee

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

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

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	913	926	913	926
In the second to fifth years, inclusive	—	—	—	—
	<u>913</u>	<u>926</u>	<u>913</u>	<u>926</u>

Notes to Financial Statements

31st July, 2006

36. POST BALANCE SHEET EVENTS

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

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

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

- (1) 50% investment in Fortune Sign, up to an aggregate amount of HK\$1,556,000,000;
- (2) 10% investment in Bayshore, up to an aggregate amount of HK\$2,923,000,000; and/or
- (3) 100% investment in FHEL, up to an aggregate amount of HK\$1,140,000,000,

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

The undertaking is subject to the following provisos:

- (i) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company’s issued share capital or share premium account resulting from an issue of shares for cash or other new consideration upon a capitalisation of distributable reserves after 18th October, 2006;
- (ii) the aggregate limit in respect of the special capital reserve may be reduced after the disposal or other realisation of any of the assets the subject of the undertaking (as referred to at (1) to (3) above) by the amount of the individual limit for the asset in question less such amount (if any) as is credited to the special capital reserve as a result of such disposal or realisation; and

Notes to Financial Statements

31st July, 2006

36. POST BALANCE SHEET EVENTS (continued)

(a) (continued)

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

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

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

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

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, 22nd December, 2006 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st July, 2006;
2. To re-elect retiring directors and to fix the directors' remuneration;
3. To appoint auditors and to authorise the directors to fix their remuneration; and
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

(I) "THAT:

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

Notice of Annual General Meeting

(d) for the purposes of this Resolution:

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

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

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

(II) “**THAT:**

conditional upon The Stock Exchange of Hong Kong Limited granting approval of the listing of and permission to deal in the shares falling to be issued pursuant to the exercise of any options granted under the share option scheme (the “Share Option Scheme”), the rules of which are contained in the document marked “A” produced to this meeting and by way of identification signed by the Chairman hereof and the principal terms of which are summarized in the printed document marked “B” produced to this meeting and for the purpose of identification signed by the Chairman hereof, the Share Option Scheme be approved and adopted to be the share option scheme for the Company and that the Directors of the Company be authorized to grant options thereunder and to allot and issue shares pursuant to the Share Option Scheme and to take all such steps as may be necessary or desirable to implement such Share Option Scheme.”

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 10th November, 2006

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, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Annual General Meeting or its adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Annual General Meeting or at any of its adjourned meeting should they so wish.
3. Concerning item 2 of this Notice, Mr. Lam Kin Ngok, Peter and Mr. David Tang will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election pursuant to Article 102 of the Articles of Association of the Company. Details of the above Directors are set out in the "Biographical Details of Directors and Senior Management" section of the Annual Report 2005-2006 of the Company.
4. Resolution (I) under item 4 relates to the granting of a general mandate to the directors of the Company to issue new shares up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the said resolution. The Company has no immediate plan to issue any new shares under the general mandate.

Resolution (II) under item 4 relates to the adoption of a share option scheme of the Company. A circular containing all relevant information of the share option scheme as required under the Listing Rules is dispatched to shareholders together with the Annual Report 2005-2006 of the Company.

5. In accordance with the Company's Articles of Association, at any general meeting of members of the Company, a resolution shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:
 - (i) the Chairman of the Meeting; or
 - (ii) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
 - (iii) any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
 - (iv) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.