

If you are in any doubt about this prospectus or as to the actions to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES" in APPENDIX II, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong and the Registrar of Companies in the Cayman Islands take no responsibility for the contents of any of these documents.

If you have sold or transferred all your shares in Lai Fung Holdings Limited ("Company"), you should at once hand this prospectus with the accompanying forms to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Dealings in the Shares (as defined herein) and, the Rights Shares in their nil-paid form and fully-paid form may be settled through the Central Clearing and Settlement System ("CCASS") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of Hong Kong Securities Clearing Company Limited ("HKSCC"), the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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## LAI FUNG HOLDINGS

Lai Fung Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1125)

### **RIGHTS ISSUE OF 1,174,591,295 RIGHTS SHARES OF HK\$0.10 EACH AT HK\$0.10 PER RIGHTS SHARE IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY FOUR EXISTING SHARES HELD ON THE RECORD DATE PAYABLE IN FULL ON ACCEPTANCE**

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The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Thursday, 8th July, 2004. The procedure for acceptance or transfer is set out on page 13 of this prospectus.

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter (as defined herein) the right to terminate the Underwriting Agreement if certain events (including force majeure) happen at any time prior to 5:00 p.m. on the second Business Day after the last date for acceptance of entitlements to subscribe for the Rights Shares. Those force majeure events include the occurrence and/or coming into effect of any events or circumstances concerning or relating to (1) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, China, Cayman Islands or elsewhere; or (2) any significant change in local, national or international, financial, political, industrial or economic conditions; or (3) any change of an exceptional nature in local, national or international financial markets including but not limited to equity securities or currency markets; or (4) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; which event or events is or are in the reasonable opinion of the Underwriter; (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or any member of the Group; or (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up. In the event that the Underwriter exercise such right to terminate the Underwriting Agreement, the Rights Issue will not proceed. For further details, please refer to the section headed "Termination of the Underwriting Agreement" as set out on page 4 of this prospectus.

It should also be noted that the shares of the Company have been dealt in on an ex-rights basis as from Tuesday, 15th June, 2004 and that the Rights Shares are expected to be dealt in their nil-paid form from Friday, 25th June, 2004 to Monday, 5th July, 2004 (both days inclusive). Such dealings will take place when the conditions of the Rights Issue remain unfulfilled. Any person dealing in the securities of the Company from now up to the date on which all such conditions are fulfilled and any person dealing in the nil-paid Rights Shares from Friday, 25th June, 2004 to Monday, 5th July, 2004 (being the first and last days of dealing in the nil-paid Rights Shares respectively) will accordingly bear the risk that the Rights Issue may not become unconditional and may not proceed. Any person dealing or contemplating any dealing in the securities of the Company and/or the Rights Shares in their nil-paid form during this period who is in any doubt about his or her position is recommended to consult his or her own professional adviser.

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## DEFINITIONS

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*In this prospectus, the following expressions have the following meanings, unless the context otherwise requires:*

“Announcement”	the announcement dated 3rd June, 2004 issued by the Company headed “Rights Issue in the Proportion of One Rights Share for Every Four Shares Held at HK\$0.10 per Rights Share and Resumption of Trading”
“associate”	has the meaning ascribed to it in the Listing Rules
“Business Day”	a day on which banks are open for business in Hong Kong (excluding Saturdays and Sundays)
“CCASS”	the Central Clearing and Settlement System, established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Lai Fung Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Conditions”	the conditions of the Rights Issue, as set out on page 10 of this prospectus
“Director(s)”	the director(s) of the Company
“Final Acceptance Date”	the last date for acceptance of and payment for the Rights Shares
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	16th June, 2004, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mainland”	the mainland of the People’s Republic of China
“Major Shareholders”	Lai Sun Garment (International) Limited, Silver Glory Securities Limited, a wholly-owned subsidiary of the former, and Mr. Lim Por Yen are in aggregate beneficially interested in approximately 47.09% of the issued share capital of the Company as at the Latest Practicable Date
“Prospectus Documents”	this prospectus, the provisional allotment letter and the form of application for excess Rights Shares

## DEFINITIONS

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“Prospectus Posting Date”	23rd June, 2004, the date on which the Prospectus Documents are despatched
“Qualifying Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and has a registered address in Hong Kong on the register of members of the Company on the Record Date
“Record Date”	23rd June, 2004, the record date by reference to which entitlements to the Rights Issue are determined
“Rights Issue”	the issue by the Company of the Rights Shares at a price of HK\$0.10 per Rights Share on the basis of one Rights Share for every four Shares held on the Record Date, subject to the terms and conditions set out in the Prospectus Documents
“Rights Shares”	1,174,591,295 new Shares to be issued pursuant to the Rights Issue
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the existing capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of the Rights Shares of HK\$0.10 per Rights Share
“Underwriter”	VC Capital Limited (previously known as VC CEF Capital Limited)
“Underwriting Agreement”	the underwriting agreement dated 31st May, 2004 entered into between the Company and the Underwriter in relation to the Rights Issue
“HK\$” and “cents”	Hong Kong dollar(s) and Hong Kong cent(s) respectively, the lawful currency of Hong Kong

## SUMMARY OF THE TERMS OF THE RIGHTS ISSUE

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The following information is derived from, and should be read in conjunction with, the full text of this prospectus:

Number of Rights Shares to be issued	:	1,174,591,295 Rights Shares
Amount to be raised	:	Approximately HK\$117.46 million before expenses
Subscription price	:	HK\$0.10 per Rights Share payable in full on acceptance
Final Acceptance Date	:	On or before 4:00 p.m. on Thursday, 8th July, 2004
Basis of the Rights Issue	:	One Rights Share for every four Shares held on the Record Date
Excess Applications	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotments
Status of Rights Shares	:	When allotted and fully-paid, the Rights Shares will rank pari passu in all respects with the Shares then in issue and holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the fully-paid Rights Shares.
Undertaking from Major Shareholders	:	Each of the Major Shareholders has given an irrevocable undertaking in favour of the Company and the Underwriter to take up its or his entitlement under the Rights Issue in full.

# TERMINATION OF THE UNDERWRITING AGREEMENT

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## Termination of the Underwriting Agreement

If at any time up to 5:00 p.m. on the second Business Day following the Final Acceptance Date, one or more of the following events or matters shall develop, occur, arise or exist or come into effect:

- (i) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties given by the Company in the Underwriting Agreement was untrue, inaccurate, misleading or breached and in each case, which is in the absolute opinion of the Underwriter, material in the context of the Rights Issue; or
- (ii) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, China, Cayman Islands or elsewhere; or
- (iii) any change in local, national or international, financial, political, industrial or economic conditions; or
- (iv) any change of an exceptional nature in local, national or international financial markets including but not limited to equity securities or currency markets; or
- (v) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;

which event or events is or are in the reasonable opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or any member of the Group; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up,

then the Underwriter may, in its absolute discretion, in addition to and without prejudice to any other remedies to which the Underwriter may be entitled, by notice in writing to the Company, terminate the Underwriting Agreement.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

It is expected that the conditions referred to in the section headed “Conditions of the Rights Issue” in this prospectus are to be fulfilled by 5:00 p.m. Hong Kong time on Monday, 12th July, 2004. If the conditions referred to in that section are not fulfilled or waived in whole or in part by the Underwriter on or before 5:00 p.m. Hong Kong time on 31st July, 2004 or the Underwriting Agreement has been terminated in accordance with the terms thereof, then the Rights Issue will not proceed.

Shares have been dealt on an ex-rights basis from Tuesday, 15th June, 2004. Dealings in the Rights Shares in their nil-paid form will take place from Friday, 25th June, 2004 to Monday, 5th July, 2004, both days inclusive. If the Underwriter terminates the Underwriting Agreement (see the section headed “Termination of the Underwriting Agreement” in the Letter from the Board), or if the Conditions (see the section headed “Conditions of the Rights Issue” in the Letter from the Board) are not fulfilled, the Rights Issue will not proceed.

## EXPECTED TIMETABLE

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2004

Last day of dealings in Shares on a cum-rights basis	Monday, 14th June
First day of dealings in Shares on an ex-rights basis	Tuesday, 15th June
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue	4:00 p.m. on Wednesday, 16th June
Book closure period (both days inclusive)	Thursday, 17th June to Wednesday, 23rd June
Record Date	Wednesday, 23rd June
Prospectus Documents expected to be despatched on	Wednesday, 23rd June
First day of dealings in nil-paid Rights Shares	Friday, 25th June
Latest time for splitting nil-paid Rights Shares	4:00 p.m. on Tuesday, 29th June
Last day of dealings in nil-paid Rights Shares	Monday, 5th July
Latest time for acceptance of and payment for Rights Shares	4:00 p.m. on Thursday, 8th July
Rights Issue expected to become unconditional on or before	5:00 p.m. on Monday, 12th July
Announcement of results	Tuesday, 13th July
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be despatched on or before	Wednesday, 14th July
Certificates for fully-paid Rights Shares expected to be despatched on or before	Wednesday, 14th July
Dealings in fully-paid Rights Shares expected to commence on	Friday, 16th July



LAI FUNG HOLDINGS

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

*Executive Directors:*

Lim Por Yen (Chairman)  
Lam Kin Ming\* (Deputy Chairman)  
Lam Kin Hong, Matthew (Chief Executive Officer)  
Ho Wing Tim<sup>o</sup> (Deputy Chief Executive Officer)  
Lam Kin Ngok, Peter  
Lee Po On  
U Po Chu  
Yew Yat Ming

*Non-Executive Directors:*

Lam Kin Ko, Stewart<sup>o</sup>  
Chiu Wai<sup>o</sup>  
Shiu Kai Wah<sup>o</sup>  
Siu Fai Wing<sup>o</sup>  
Yu Po Kwan<sup>o</sup>

\* also alternate director to<sup>o</sup>

*Independent Non-Executive Directors:*

Wong Yee Sui, Andrew  
Lam Bing Kwan

*Registered Office:*

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

*Head Office and Principal Place of*

*Business:*

11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

23rd June, 2004

*To Qualifying Shareholders*

Dear Sir/Madam,

**RIGHTS ISSUE OF 1,174,591,295 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$0.10 PER RIGHTS SHARE IN THE PROPORTION OF  
ONE RIGHTS SHARE FOR EVERY FOUR EXISTING SHARES  
HELD ON THE RECORD DATE  
PAYABLE IN FULL ON ACCEPTANCE**

**INTRODUCTION**

As stated in the Announcement, the Company has proposed, subject to the fulfilment of the Conditions, to raise approximately HK\$117.46 million, before expenses, by way of a rights issue of 1,174,591,295 Rights Shares at the Subscription Price, in the proportion of one Rights Share for every four Shares held on the Record Date, payable in full on acceptance.



# LETTER FROM THE BOARD

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The purpose of this prospectus is to give you further information regarding the Rights Issue, including information on dealings in and transfers and acceptances of the Rights Shares, and certain financial and other information in respect of the Group.

## THE RIGHTS ISSUE

### Issue statistics

Basis of Rights Issue	:	One Rights Share for every four Shares held on the Record Date
Number of Shares in issue on the Record Date	:	4,698,365,183 Shares
Number of Rights Shares	:	1,174,591,295 Rights Shares, representing approximately 25% and 20% of the existing and enlarged issued share capital of the Company respectively
Subscription price for the Rights Shares	:	HK\$0.10 each
Underwriter	:	VC Capital Limited, an independent third party not connected with the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates

As at the Latest Practicable Date, the Company has no outstanding options, convertible securities or warrants which confer the right to subscribe for Shares. The Company has undertaken with the Underwriter that on or before the Record Date, the Company will not (i) grant any options or issue other securities which confer the right to subscribe for Shares; or (ii) issue any Shares.

### Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must on the Record Date:

- be registered as a member of the Company at the close of business on the Record Date; and
- have an address in Hong Kong which appears on the register of members of the Company.

The Company will send provisional allotment letters and forms of application for excess Rights Shares to the Qualifying Shareholders only. As at the close of business on the Record Date, there are no members of the Company whose registered address on the register of members of the Company are outside Hong Kong.

Shareholders may enquire with the Hong Kong branch share registrar of the Company, Tengis Limited, as to whether they qualify to participate in the Rights Issue.

### Subscription Price for the Rights Shares

The Subscription Price is HK\$0.10 per Rights Share, payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for Rights Shares.

# LETTER FROM THE BOARD

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The Subscription Price of HK\$0.10 was determined with reference to recent closing prices of the Shares on the Stock Exchange and represents (i) a discount of approximately 57.4% to the closing price of HK\$0.235 per Share quoted on the Stock Exchange on 31st May, 2004 (the last trading day prior to the suspension of trading of Shares pending the making of the Announcement); (ii) a discount of approximately 51.9 % to the theoretical ex-rights price of HK\$0.208 per Share based on that closing price per Share; (iii) a discount of approximately 52.8% to the average closing price of HK\$0.212 per Share for the last ten trading days prior to the date of the Announcement; and (iv) a discount of approximately 33.33% to the closing price of HK\$0.15 per Share as at the Latest Practicable Date.

## Status of the Rights Shares

When allotted and fully-paid, the Rights Shares will rank pari passu in all respects with the Shares then in issue and holders of such fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the fully-paid Rights Shares.

## UNDERWRITING ARRANGEMENT

### Underwriting Agreement

Date	:	31st May, 2004
Underwriter	:	VC Capital Limited
Number of Rights Shares underwritten	:	621,422,489 Rights Shares, being all the Rights Shares other than those undertaken to be taken up by the Major Shareholders
Commission	:	HK\$2,610,000, the Directors consider that such rate is fair and reasonable and was determined after arms length negotiations between the Company and the Underwriter and is within the market range.

The Underwriter is an independent third party not connected with the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

The Rights Shares other than those to be taken up by the Major Shareholders are fully underwritten by the Underwriter.

### Undertaking from the Major Shareholders

As at the Latest Practicable Date, the Major Shareholders were together beneficially interested in an aggregate of 2,212,675,231 Shares, representing approximately 47.09% of the existing issued share capital of the Company. Each of them has given an irrevocable undertaking in favour of the Company and the Underwriter to take up his or its entitlement under the Rights Issue in full. Each of the Major Shareholders has indicated that he or it has no present intention to apply for any excess Rights Shares under the forms of application for excess Rights Shares.

## LETTER FROM THE BOARD

Assuming that (a) the Rights Issue proceeds and is completed and (b) the public Shareholders have taken up their respective entitlements under the Rights Issue in full or the Underwriter has honoured its underwriting commitment, the interests of the Major Shareholders in the issued share capital of the Company immediately after completion of the Rights Issue will be as follows:

Major Shareholders	No. of Shares beneficially owned as at the date of this Announcement and on the Record Date	Percentage of shareholding before the Rights Issue	No. of Shares owned on completion of the Rights Issue assuming that the public Shareholders have taken up their entitlements in full	Percentage of shareholding after the Rights Issue	No. of Shares owned on completion of the Rights Issue assuming that none of the public Shareholders will take up their entitlements and the Underwriter honours its underwriting commitment	Percentage of shareholding after the Rights Issue
Lai Sun Garment (International) Limited	1,455,365,090	30.98%	1,819,206,362	30.98%	1,819,206,362	30.98%
Silver Glory Securities Limited ( <i>Note 1</i> )	665,185,341	14.16%	831,481,675	14.16%	831,481,675	14.16%
Lim Por Yen ( <i>Note 2</i> )	92,124,800	1.96%	115,156,000	1.96%	115,156,000	1.96%
Underwriter	0	0	0	0	621,422,489	10.58%
Public	<u>2,485,689,952</u>	<u>52.90%</u>	<u>3,107,112,441</u>	<u>52.90%</u>	<u>2,485,689,952</u>	<u>42.32%</u>
Total:	<u>4,698,365,183</u>	<u>100%</u>	<u>5,872,956,478</u>	<u>100%</u>	<u>5,872,956,478</u>	<u>100%</u>

*Note 1:* Silver Glory Securities Limited is a wholly-owned subsidiary of Lai Sun Garment (International) Limited.

*Note 2:* Mr. Lim Por Yen is a controlling shareholder of Lai Sun Garment (International) Limited and a shareholder of the Company. Mr. Lim Por Yen is also an executive director of both the Company and Lai Sun Garment (International) Limited.

### Termination of the Underwriting Agreement

**If at any time up to 5:00 p.m. on the second Business Day following the Final Acceptance Date, one or more of the following events or matters shall develop, occur, arise or exist or come into effect:**

- (i) **the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that, any of the warranties given by the Company in the Underwriting Agreement was untrue, inaccurate, misleading or breached and in each case, which is in the absolute opinion of the Underwriter, material in the context of the Rights Issue; or**
- (ii) **any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong, China, Cayman Islands or elsewhere; or**
- (iii) **any change in local, national or international, financial, political, industrial or economic conditions; or**
- (iv) **any change of an exceptional nature in local, national or international financial markets including but not limited to equity securities or currency markets; or**

## LETTER FROM THE BOARD

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- (v) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;

which event or events is or are in the reasonable opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or any member of the Group; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up,

then the Underwriter may, in its absolute discretion, in addition to and without prejudice to any other remedies to which the Underwriter may be entitled, by notice in writing to the Company, terminate the Underwriting Agreement. The Underwriter, at present, has still not decided how it will exercise its discretion. Further announcement will be made if the Underwriting Agreement is terminated by the Underwriter.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

It is expected that the conditions referred to in the section headed “Conditions of the Rights Issue” below are to be fulfilled by 5:00 p.m. Hong Kong time on 12th July, 2004. If the conditions referred to in that section are not fulfilled or waived in whole or in part by the Underwriter on or before 5:00 p.m. Hong Kong time on 31st July, 2004 or the Underwriting Agreement has been terminated in accordance with the terms thereof, then the Rights Issue will not proceed.

### CONDITIONS OF THE RIGHTS ISSUE

The Rights Issue is conditional upon, amongst other things, each of the following events happening:

- (i) the delivery by or on behalf of the Company of one copy of each of the Prospectus Documents, duly signed by or on behalf of all Directors or their authorised agents together with any requisite accompanying documents to the Stock Exchange and the Registrar of Companies of Hong Kong for filing and registration in accordance with the provisions of the Companies Ordinance not later than the Prospectus Posting Date;
- (ii) due performance by each of the Major Shareholders of his or its obligation under the undertaking letters executed by each of them;
- (iii) the posting of this prospectus to the Shareholders and the posting of the provisional allotment letters and the application forms for excess Rights Shares to the Qualifying Shareholders not later than the Prospectus Posting Date, or such later date as the Company may (subject, if required, to the approval of the Stock Exchange) (with the agreement of the Underwriter) specify in writing to the Underwriter;
- (iv) the Listing Committee granting or agreeing to grant (subject to allotment) listing of, and permission to deal in, the Rights Shares, in their nil-paid and fully-paid forms, by not later than in the case of Rights Shares in nil-paid form, the first day of dealing of nil-paid Rights Shares and in the case of Rights Shares in fully-paid form, the first day of dealings in fully-paid Rights Shares; and
- (v) compliance by the Company of its obligations under the Underwriting Agreement.

# LETTER FROM THE BOARD

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As at the date of issue of this prospectus, the Conditions referred to in items (i) and (iii) above have been fulfilled. The Rights Issue is, however, subject to the remaining conditions being fulfilled.

**As the Rights Issue is subject to the above conditions, it may or may not proceed accordingly.**

## **RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES**

**Shares have been dealt on an ex-rights basis from Tuesday, 15th June, 2004. Dealings in the Rights Shares in their nil-paid form will take place from Friday, 25th June, 2004 to Monday, 5th July, 2004, both days inclusive. If the Underwriter terminates the Underwriting Agreement (see the section headed “Termination of the Underwriting Agreement” above), or if the Conditions (see the section headed “Conditions of the Rights Issue” above) are not fulfilled, the Rights Issue will not proceed.**

**Any person buying or selling Shares from now up to the date on which all the Conditions are fulfilled and the date on which the Underwriter’s right of terminating the Underwriting Agreement ceases (which is expected to be Monday, 12th July, 2004), and any person buying or selling nil-paid Rights Shares between Friday, 25th June, 2004 and Monday, 5th July, 2004 (both days inclusive), will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. The latest time for the Rights Issue to become unconditional is 5:00 p.m. on 31st July, 2004.**

**Investors are recommended to obtain professional advice regarding dealings in Shares or nil-paid Rights Shares during these periods.**

## **BUSINESS REVIEW AND FUTURE PROSPECTS OF THE GROUP**

### **Business Review**

The principal activities of the Group are property development for sale and property investment for rental purposes in the Mainland. The property portfolio of the Group currently includes Hong Kong Plaza in Shanghai, Eastern Place in Guangzhou, and a number of development projects in progress or under planning in Guangzhou and Shanghai. The Company reported an audited consolidated net profit from ordinary activities attributable to Shareholders of approximately HK\$56.99 million for the year ended 31st July, 2003, equivalent to Hong Kong 1.41 cents per Share. As at 31st July, 2003, the audited consolidated net tangible assets of the Company amounted to approximately HK\$5,630.66 million. As at 31st January, 2004, the unaudited consolidated net tangible assets of the Company amounted to approximately HK\$5,311.72 million. The unaudited net tangible assets per Share was HK\$1.13 as at 31st January, 2004 and the unaudited net asset value per Share was HK\$1.13 as at 31st January, 2004. The unaudited consolidated net profit before and after taxation and minority interests of the Company for the six months ended 31st January, 2004 amounted to approximately HK\$66.26 million and HK\$50.07 million respectively. The audited consolidated net loss before taxation and minority interests of the Company amounted to HK\$89.47 million for the year ended 31st July, 2002 and the audited consolidated net profit before taxation and minority interests of the Company amounted to HK\$62.92 million for the year ended 31st July, 2003. The audited net loss after taxation and minority interests of the Company amounted to HK\$93.98 million for the year ended 31st July, 2002 and the audited net profit after taxation and minority interests of the Company amounted to HK\$56.99 million for the year ended 31st July, 2003.

### **Prospects**

With the Mainland’s steady integration into the World Trade Organisation (“WTO”), the constraints for overseas investors in some special areas such as banking, insurance and services sectors will be reduced. This will continue to draw an influx of foreign corporations seeking to establish or strengthen their presence

## LETTER FROM THE BOARD

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in the Mainland. With the implementation of the Closer Economic Partnership Arrangement, and the hosting of the 2010 World Expo in Shanghai, Hong Kong and foreign corporations will undoubtedly gravitate towards the Mainland market in ever-greater numbers, further stimulating the already surging demand for quality commercial and residential properties.

Considering this favourable outlook, the Group expects satisfactory growth for the second half of the financial year ending 31st July, 2004. The Group expects its flagship Shanghai property, Hong Kong Plaza, to continue to contribute stable rental income. The scheduled pre-sale and sale of completed developments in the second half of the financial year, including Phase I of Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou, are also expected to boost turnover and profitability. With the completion of the formal transfer to the Group of a plot of land in Zhongshan, together with the likely construction of the Hongkong-Zhuhai-Macau bridge, the Group has a very positive view on the economic development and property market of Zhongshan and will seriously consider the investment potential in this area. With other completed projects scheduled to come on stream amid a favourable leasing market, the Group is prudently optimistic of achieving solid growth and higher earnings in the coming years.

Robust economic growth is expected to continue in the Mainland, especially in the Yangtze and Pearl River deltas. As an early entrant into the Mainland with over ten years of property development experience in the market, the Group is in a prime position to seize future opportunities. The Group will maintain its focus on property investment and development projects in Shanghai and Guangzhou, the country's two primary engines for growth, while prudently exploring opportunities to expand its land bank in due course.

### **REASONS FOR THE RIGHTS ISSUE AND USE OF THE PROCEEDS**

The Directors consider that in view of the implementation of austerity measures by the authorities in the Mainland recently and the widely projected upward trend in interest rates, it is prudent to finance the Group's long term growth by long term funding, preferably in the form of equity. Furthermore, the Directors consider that it is in the interest of the Company to enlarge its capital base by way of the Rights Issue which will allow all Shareholders the opportunity to participate in the growth of the Company. The Company did not engage in any equity fund raising exercise during the 12 months immediately preceding the Latest Practicable Date.

The net proceeds from the Rights Issue, before expenses, is expected to be approximately HK\$117.46 million and approximately 15% of the proceeds will be used to meet the capital contribution requirements of the Group relating to property projects in Guangdong Province in the Mainland and the remaining 85% will be used as additional working capital for the Group. The Company has no imminent need to use the net proceeds for repayment of debt or any other current liabilities. The unaudited net current liabilities of the Company as at 31st January, 2004 amounted to HK\$107.7 million. The Directors consider that the Company has sufficient cash flow for its ongoing operations.

### **FRACTIONAL ENTITLEMENTS TO RIGHTS SHARES**

Fractional entitlements to Rights Shares will not be provisionally allotted and will be rounded down to the nearest whole number. Rights Shares representing the aggregate of fractions of Rights Shares (rounded down to the nearest whole number) will be provisionally allotted to a nominee appointed by the Company and, if a premium of HK\$100, net of expenses, can be obtained, will be sold by the Company or its appointed nominee and the net proceeds of sale will be retained by the Company for its own benefit. Any unsold fractions of Rights Shares will be available for excess application.

# LETTER FROM THE BOARD

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## PROCEDURE FOR ACCEPTANCE AND PAYMENT OR TRANSFER

A provisional allotment letter which entitles you to take up the number of the Rights Shares shown therein is enclosed with this prospectus. If you wish to exercise your rights to take up all the Rights Shares specified in the provisional allotment letter, you must lodge the provisional allotment letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by not later than 4:00 p.m. on Thursday, 8th July, 2004. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a bank in Hong Kong and made payable to "Lai Fung Holdings Limited - Provisional Allotment Account" and crossed "Account Payee Only".

It should be noted that unless the provisional allotment letter, together with the appropriate remittance, has been lodged with the Hong Kong branch share registrar of the Company by 4:00 p.m. on Thursday, 8th July, 2004, whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The provisional allotment letter contains full information regarding the procedures to be followed. If you wish to accept only part of your provisional allotment or if you wish to transfer all or part of your provisional allotment to more than one person, the provisional allotment letter must be surrendered by not later than 4:00 p.m. on Tuesday, 29th June, 2004 to the Company's Hong Kong branch share registrar, Tengis Limited, which will cancel the original provisional allotment letter and issue a new provisional allotment letter in the denominations required.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any provisional allotment letter in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement before 5:00 p.m. on the second Business Day following the Final Acceptance Date and/or if any of the Conditions are not fulfilled, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form shall have been validly transferred without interest, by means of cheques crossed "Account Payee Only" despatched by ordinary post to their registered address and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the transfer form at the risk of such Qualifying Shareholders or such other persons on or about Wednesday, 14th July, 2004.

## APPLICATIONS BY QUALIFYING SHAREHOLDERS FOR EXCESS RIGHTS SHARES

If you wish to apply for any Rights Shares in addition to your provisional allotment under the Rights Issue, you must complete and sign the enclosed form of application for excess Rights Shares as indicated therein and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by not later than 4:00 p.m. on Thursday, 8th July, 2004. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a bank in Hong Kong and made payable to "Lai Fung Holdings Limited — Excess Application Account" and crossed "Account Payee Only". The Directors will allocate the excess Rights Shares among Qualifying

## LETTER FROM THE BOARD

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Shareholders who have validly applied for excess Rights Shares in such equitable manner as the Directors shall, at their sole discretion think fit and preference will be given to applications made to round up odd lot holdings to whole board lots. The Hong Kong branch share registrar will despatch a notice or notices to you of any allotment of excess Rights Shares made to you on or about Wednesday, 14th July, 2004.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgment of a form of application for excess Rights Shares together with a cheque or banker's cashier order in payment for the Rights Shares applied for will constitute a warranty by the applicant that the cheque or banker's cashier order will be honoured on first presentation. Any form of application for excess Rights Shares in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

If no excess Rights Shares are allotted to you, the amount tendered on application is expected to be refunded to you in full without interest by means of cheques despatched by ordinary post at your own risk on or about Wednesday, 14th July, 2004. If the number of excess Rights Shares allotted to you is less than that applied for, the surplus application money is expected to be refunded to you without interest by means of cheques despatched by ordinary post and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the transfer form at your own risk on or about Wednesday, 14th July, 2004.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement before 5:00 p.m. on the second Business Day following the Final Acceptance Date and/or if any of the Conditions are not fulfilled, the monies received in respect of applications for excess Rights Shares will be returned to the applicants without interest, by means of cheques despatched by ordinary post at the risk of such applicants on or about Wednesday, 14th July, 2004.

The form of application for excess Rights Shares is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques and cashier's orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Company's Hong Kong branch share registrar, Tengis Limited.

### **COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS**

No action has been taken in any jurisdictions other than Hong Kong to permit the offering of the Rights Shares or the distribution of any of the Prospectus Documents in any territory outside Hong Kong, and therefore no person receiving any of the Prospectus Documents in any territory outside Hong Kong may treat it as an offer or an invitation to apply for Rights Shares, unless in the relevant territory such an offer or invitation could lawfully be made without compliance with any registration or other legal or regulatory requirements. Subject as referred to below, it is the responsibility of anyone outside Hong Kong wishing to make an application for Rights Shares to satisfy himself or herself as to the observance of the laws and regulations of all relevant territories, including the obtaining of any government or other consents, and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for Rights Shares will be accepted from any person whose address is outside Hong Kong unless the Company in its absolute discretion is satisfied that such acceptance would not involve any breach of any applicable laws or regulatory requirements or any need for compliance with any registration or other legal or regulatory requirements. The Company reserves the right to refuse to accept any application for Rights Shares if it believes that such acceptance would violate the applicable securities or other laws or regulations of any territory.



## LISTING AND DEALINGS

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. It is expected that dealings in the Rights Shares in their nil-paid form will commence on Friday, 25th June, 2004 and will end on Monday, 5th July, 2004 (both days inclusive).

The Shares are listed on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought. The Company has no debt securities in issue.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

For the purpose of trading on the Stock Exchange, a board lot for the Shares and the Rights Shares in both their nil-paid and fully-paid forms will be 1,000 Shares. Dealings in the nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on Friday, 16th July, 2004.

## SHARE CERTIFICATES

Subject to the fulfillment of the Conditions, it is expected that certificates for the fully-paid Rights Shares will be posted to the persons entitled thereto at their own risk by the Hong Kong branch share registrar of the Company on or about Wednesday, 14th July, 2004 to their registered address and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members of the Company. Where entitlement to the Rights Shares in their fully-paid form exceeds one board lot, it is proposed, so far as practicable, to issue certificates in board lots of 1,000 Rights Shares each with a separate certificate for the balance.

## TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the Rights Shares. It is emphasised that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding, disposal of, or dealing in the Rights Shares (in their nil-paid and/or fully-paid forms).

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## LETTER FROM THE BOARD

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### FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this prospectus.

Yours faithfully,  
For and on behalf of the Board of  
**Lai Fung Holdings Limited**  
**Lim Por Yen**  
*Chairman*

## 1. INFORMATION FOR THE LAST THREE FINANCIAL YEARS

Set out below is a summary of the audited consolidated profit and loss accounts of the Group for each of the three years ended 31st July, 2001, 2002 and 2003 and the audited consolidated balance sheets of the Group as at 31st July, 2001, 31st July, 2002 and 31st July, 2003, reclassified as appropriate, as extracted from the Company's audited financial statements for each of the three years ended 31st July, 2001, 2002 and 2003:

**Results**

	Year ended 31st July,		
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
TURNOVER	119,338	142,510	161,743
Cost of sales	<u>(25,561)</u>	<u>(80,580)</u>	<u>(102,815)</u>
Gross profit	93,777	61,930	58,928
Other revenues	52,213	59,161	68,324
Selling expenses	(1,289)	—	—
Administrative expenses	(56,125)	(44,887)	(62,627)
Loss on disposal of a jointly-controlled entity	(3,772)	—	—
Gain on disposal of partial interest in a subsidiary	27,095	—	—
Overprovision for completed properties for sale	—	—	5,000
Overprovision for properties under development held for purposes other than investment potential	<u>—</u>	<u>—</u>	<u>3,982</u>
PROFIT FROM OPERATING ACTIVITIES	111,899	76,204	73,607
Finance costs	(38,728)	(57,960)	(139,973)
Share of losses of associates	—	(43,742)	(44,718)
Impairment loss in amounts due from associates	(10,249)	(18,916)	(17,787)
Impairment loss in interests in jointly-controlled entities	—	(45,057)	—
Write-off of unamortised goodwill on acquisition of an associate	<u>—</u>	<u>—</u>	<u>(36,993)</u>
PROFIT/(LOSS) BEFORE TAX	62,922	(89,471)	(165,864)
Tax	<u>(4,103)</u>	<u>(2,352)</u>	<u>2,068</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	58,819	(91,823)	(163,796)
Minority interests	<u>(1,824)</u>	<u>(2,153)</u>	<u>(823)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>56,995</u>	<u>(93,976)</u>	<u>(164,619)</u>
Basic earnings/(loss) per share	<u>1.4 cents</u>	<u>(2.9 cents)</u>	<u>(7.6 cents)</u>

## Assets and Liabilities

	As at 31st July,		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	52,628	50,280	6,364
Investment properties	2,946,700	2,952,400	2,954,000
Properties under development	3,377,730	3,209,980	3,354,567
Negative goodwill	(28,383)	—	—
Interests in associates	607,015	599,908	624,178
Interests in jointly-controlled entities	—	5,118	50,127
Long-term investments	2,300	—	—
	<u>6,957,990</u>	<u>6,817,686</u>	<u>6,989,236</u>
<b>CURRENT ASSETS</b>			
Completed properties for sale	16,168	16,555	58,130
Debtors, deposits and prepayments	41,165	55,372	54,814
Tax recoverable	18,085	13,442	14,370
Pledged time deposits and bank balances	11,466	11,698	2,315
Cash and cash equivalents	177,508	96,284	98,507
	<u>264,392</u>	<u>193,351</u>	<u>228,136</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	47,126	138,006	86,106
Tax payable	7,567	—	—
Deposits received	17,406	19,502	12,114
Rental deposits received	9,725	10,455	12,525
Creditors and accruals	215,342	227,425	279,141
Loans from a substantial shareholder	16,170	—	—
	<u>313,336</u>	<u>395,388</u>	<u>389,886</u>
<b>NET CURRENT LIABILITIES</b>	<u>(48,944)</u>	<u>(202,037)</u>	<u>(161,750)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	6,909,046	6,615,649	6,827,486
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	(1,074,362)	(829,445)	(891,635)
Loans from a substantial shareholder	—	(86,886)	(53,285)
Long-term rental deposits received	(12,666)	(10,735)	(7,303)
	<u>(1,087,028)</u>	<u>(927,066)</u>	<u>(952,223)</u>
<b>MINORITY INTERESTS</b>	<u>(219,746)</u>	<u>(165,085)</u>	<u>(162,376)</u>
	<u>5,602,272</u>	<u>5,523,498</u>	<u>5,712,887</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	460,624	383,853	307,083
Reserves	5,141,648	5,139,645	5,405,804
	<u>5,602,272</u>	<u>5,523,498</u>	<u>5,712,887</u>

## 2. FINANCIAL INFORMATION

Set out below are the audited consolidated profit and loss accounts of the Group for each of the two years ended 31st July, 2002 and 2003 and the audited consolidated balance sheets as at 31st July, 2002 and 31st July, 2003 together with the relevant notes thereto as extracted from the Company's latest audited financial statements set out in the Company's latest published annual report:

**Consolidated Profit and Loss Account***For the year ended 31st July, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
TURNOVER	6	119,338	142,510
Cost of sales		<u>(25,561)</u>	<u>(80,580)</u>
Gross profit		93,777	61,930
Other revenues	6	52,213	59,161
Selling expenses		(1,289)	—
Administrative expenses		(56,125)	(44,887)
Loss on disposal of a jointly-controlled entity		(3,772)	—
Gain on disposal of partial interest in a subsidiary		<u>27,095</u>	<u>—</u>
PROFIT FROM OPERATING ACTIVITIES	7	111,899	76,204
Finance costs	8	(38,728)	(57,960)
Share of losses of associates		—	(43,742)
Impairment loss in amounts due from associates		(10,249)	(18,916)
Impairment loss in interests in jointly-controlled entities		<u>—</u>	<u>(45,057)</u>
PROFIT/(LOSS) BEFORE TAX		62,922	(89,471)
Tax	11	<u>(4,103)</u>	<u>(2,352)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		58,819	(91,823)
Minority interests		<u>(1,824)</u>	<u>(2,153)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u>56,995</u>	<u>(93,976)</u>
EARNINGS/(LOSS) PER SHARE	13		
Basic		<u>1.41 cents</u>	<u>(2.95 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**Consolidated Balance Sheet***As at 31st July, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	52,628	50,280
Investment properties	15	2,946,700	2,952,400
Properties under development	16	3,377,730	3,209,980
Negative goodwill	17	(28,383)	—
Interests in associates	19	607,015	599,908
Interests in jointly-controlled entities	20	—	5,118
Long-term investments	21	<u>2,300</u>	<u>—</u>
		<u>6,957,990</u>	<u>6,817,686</u>
<b>CURRENT ASSETS</b>			
Completed properties for sale	22	16,168	16,555
Debtors, deposits and prepayments	23	41,165	55,372
Tax recoverable		18,085	13,442
Pledged time deposits and bank balances	24	11,466	11,698
Cash and cash equivalents	24	<u>177,508</u>	<u>96,284</u>
		<u>264,392</u>	<u>193,351</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	25	47,126	138,006
Tax payable		7,567	—
Deposits received		17,406	19,502
Rental deposits received		9,725	10,455
Creditors and accruals	26	215,342	227,425
Loans from a substantial shareholder	27	<u>16,170</u>	<u>—</u>
		<u>313,336</u>	<u>395,388</u>
<b>NET CURRENT LIABILITIES</b>		<u>(48,944)</u>	<u>(202,037)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,909,046	6,615,649
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	25	(1,074,362)	(829,445)
Loans from a substantial shareholder	27	—	(86,886)
Long-term rental deposits received		<u>(12,666)</u>	<u>(10,735)</u>
		<u>(1,087,028)</u>	<u>(927,066)</u>
<b>MINORITY INTERESTS</b>		<u>(219,746)</u>	<u>(165,085)</u>
		<u>5,602,272</u>	<u>5,523,498</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	29	460,624	383,853
Reserves	31(a)	<u>5,141,648</u>	<u>5,139,645</u>
		<u>5,602,272</u>	<u>5,523,498</u>

## Consolidated Statement of Changes in Equity

For the year ended 31st July, 2003

		Issued share capital	Share premium account	Exchange fluctuation reserve	Investment properties revaluation reserve	Revaluation reserve of properties under development held for investment potential	Capital reserve	Retained profits/ (accumulated losses)	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st August, 2001		307,083	3,228,831	16,340	438,120	1,534,865	181,292	6,356	5,712,887
Rights issue	29	76,770	—	—	—	—	—	—	76,770
Share issue expenses	29	—	(3,142)	—	—	—	—	—	(3,142)
Exchange realignments		—	—	1,717	—	—	—	—	1,717
Deficit on revaluation		—	—	—	(11,909)	(158,849)	—	—	(170,758)
Net gains and losses not recognised in the profit and loss account		—	—	1,717	(11,909)	(158,849)	—	—	(169,041)
Loss for the year		—	—	—	—	—	—	(93,976)	(93,976)
At 31st July, 2002 and 1st August, 2002		383,853	3,225,689	18,057	426,211	1,376,016	181,292	(87,620)	5,523,498
Rights issue	29	76,771	—	—	—	—	—	—	76,771
Share issue expenses	29	—	(3,413)	—	—	—	—	—	(3,413)
Release upon disposal of a jointly-controlled entity		—	—	1,764	—	—	—	—	1,764
Release of reserves and goodwill upon disposal of partial interest in a subsidiary		—	—	(1,283)	—	(16,781)	—	4,054	(14,010)
Exchange realignments		—	—	(1,189)	—	—	—	—	(1,189)
Deficit on revaluation		—	—	—	(8,827)	(29,317)	—	—	(38,144)
Net gains and losses not recognised in the profit and loss account		—	—	(1,189)	(8,827)	(29,317)	—	—	(39,333)
Profit for the year		—	—	—	—	—	—	56,995	56,995
At 31st July, 2003		<u>460,624</u>	<u>3,222,276*</u>	<u>17,349*</u>	<u>417,384*</u>	<u>1,329,918*</u>	<u>181,292*</u>	<u>(26,571)*</u>	<u>5,602,272</u>

\* These reserve accounts comprise the consolidated reserves of HK\$5,141,648,000 (2002: HK\$5,139,645,000) in the consolidated balance sheet.

## Consolidated Statement of Changes in Equity (continued)

For the year ended 31st July, 2003

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Revaluation reserve of properties under development held for investment potential <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits/ losses) (accumulated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reserves retained by:								
Company and subsidiaries	460,624	3,222,276	9,370	417,384	1,329,918	181,292	157,935	5,778,799
Associates	—	—	7,979	—	—	—	(153,870)	(145,891)
Jointly-controlled entities	—	—	—	—	—	—	(30,636)	(30,636)
At 31st July, 2003	<u>460,624</u>	<u>3,222,276</u>	<u>17,349</u>	<u>417,384</u>	<u>1,329,918</u>	<u>181,292</u>	<u>(26,571)</u>	<u>5,602,272</u>
Company and subsidiaries	383,853	3,225,689	11,842	426,211	1,376,016	181,292	103,750	5,708,653
Associates	—	—	7,979	—	—	—	(153,870)	(145,891)
Jointly-controlled entities	—	—	(1,764)	—	—	—	(37,500)	(39,264)
At 31st July, 2002	<u>383,853</u>	<u>3,225,689</u>	<u>18,057</u>	<u>426,211</u>	<u>1,376,016</u>	<u>181,292</u>	<u>(87,620)</u>	<u>5,523,498</u>



**Consolidated Cash Flow Statement***For the year ended 31st July, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		62,922	(89,471)
Adjustments for:			
Finance costs	8	38,728	57,960
Share of losses of associates		—	43,742
Impairment loss in amounts due from associates		10,249	18,916
Impairment loss in interests in jointly-controlled entities		—	45,057
Gain on disposal of partial interest in a subsidiary		(27,095)	—
Interest income	6	(21,732)	(37,709)
Depreciation	7	4,025	3,092
Loss on disposal of fixed assets	7	—	9
Loss on disposal of a jointly-controlled entity		3,772	—
Write-back of provision for a deposit paid	7	(3,632)	—
Negative goodwill recognised as income	7	(732)	—
		<u>66,505</u>	<u>41,596</u>
Operating profit before working capital changes		66,505	41,596
Decrease in completed properties for sale		4,019	41,575
Decrease/(increase) in debtors, deposits and prepayments		14,207	(558)
Increase in amounts due to jointly-controlled entities		—	(6)
Decrease in deposits received, short-term rental deposits received and creditors and accruals		(14,909)	(46,398)
Increase in long-term rental deposits received		<u>1,931</u>	<u>3,432</u>
		<u>71,753</u>	<u>39,641</u>
Cash generated from operations		71,753	39,641
Profits taxes paid outside Hong Kong		<u>(1,179)</u>	<u>(1,424)</u>
		<u>70,574</u>	<u>38,217</u>
Net cash inflow from operating activities		<u>70,574</u>	<u>38,217</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		773	790
Purchases of fixed assets	14	(6,424)	(944)
Proceeds from disposal of fixed assets		51	46
Additions to investment properties	15	(5,773)	(10,409)
Additions to properties under development	16	(187,564)	(54,689)
Acquisition of a subsidiary	32	(2,300)	—
Acquisition of additional interest in a subsidiary		(13,757)	—
Proceeds from disposal of partial interest in a subsidiary		111,000	—
Proceeds from disposal of a jointly-controlled entity		3,110	—
Repayment from associates		3,603	—
Decrease/(increase) in pledged deposits and bank balances		<u>232</u>	<u>(9,383)</u>
		<u>(97,049)</u>	<u>(74,589)</u>
Net cash outflow from investing activities		<u>(97,049)</u>	<u>(74,589)</u>

**Consolidated Cash Flow Statement (continued)***For the year ended 31st July, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Gross proceeds from issue of shares	29	76,771	76,770
Share issue expenses	29	(3,413)	(3,142)
New bank loans		216,777	28,283
Repayment of bank loans		(62,570)	(39,014)
New loans from a substantial shareholder		35,284	71,283
Repayment of loans to a substantial shareholder		(106,000)	(37,682)
Advances from minority interests		—	675
Finance costs paid		<u>(48,419)</u>	<u>(62,431)</u>
Net cash inflow from financing activities		<u>108,430</u>	<u>34,742</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		81,955	(1,630)
Cash and cash equivalents at beginning of year		96,284	98,507
Effect of foreign exchange rate changes, net		<u>(731)</u>	<u>(593)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>177,508</u>	<u>96,284</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	24	129,481	75,383
Non-pledged time deposits with original maturity of less than three months when acquired	24	<u>48,027</u>	<u>20,901</u>
		<u>177,508</u>	<u>96,284</u>

**NOTES TO FINANCIAL STATEMENTS***31st July, 2003***1. CORPORATE INFORMATION**

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

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

**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPS”)**

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 34 : “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 36 and 37 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The reclassifications resulting from the change in the presentation are that taxes paid are now included in cash flows from operating activities, interest received is now included in cash flows from investing activities and interest paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

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

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st July, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. 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.

#### **Subsidiaries**

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

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

#### **Joint venture companies**

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**Associates**

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

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

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

**Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life, less any impairment losses. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1st August, 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1st August, 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Negative goodwill**

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets for a period of 40 years. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1st August, 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1st August, 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

**Long term investments**

Long term investments in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

**Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

### Fixed assets and depreciation

Fixed assets, other than investment properties and properties under development, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

### Properties under development

- (a) Properties under development held for investment potential are stated at their open market values on the basis of annual professional valuations.

Changes in the values of such properties under development which have been revalued are dealt with as movements in the revaluation reserve of properties under development held for investment potential. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On completion, the properties are transferred to investment properties.

On disposal of a property under development which has been revalued, the relevant portion of the revaluation reserve of properties under development held for investment potential realised in respect of previous valuations is released to the profit and loss account.

- (b) Properties under development held for purposes other than investment potential are stated at cost less any impairment losses.

Where the pre-sale of properties has commenced, properties under development held for purposes other than investment potential are stated at cost plus attributable profits (recognised on the basis set out under the heading "Revenue recognition" in this note) less the attributable sale instalments received and receivable.

Cost of properties in the course of development comprises land cost, fees for land use rights, construction costs, financing 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. Net realisable value is estimated by the directors based on the prevailing market conditions. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties.

### **Leased assets**

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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

### **Revenue recognition**

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

- (a) from the sale of completed properties for sale, upon the establishment of a binding contract in respect of the sale of properties or upon the issue of a completion certificate by the relevant government authorities, whichever is the later;
- (b) from the pre-sale of properties under development, when a binding contract in respect of the sale of properties has been executed and the construction work has reached a stage where the ultimate realisation of profit can be reasonably determined, the attributable revenues and profits on the pre-sold portion of the properties under development, being a proportion of the total revenues and profits expected on completion, are recognised over the course of the development. The proportion used is calculated by reference to the lower of:
- (i) the percentage of the total construction costs incurred at the end of the year to the estimated total construction costs on completion (with due allowance for contingencies); and
- (ii) the proportion of the actual cash received to the total sales consideration.

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

- (c) rental income is recognised in the period in which the properties are let and on a straight-line basis over the lease terms;
- (d) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and



- (e) management fee income is recognised when services are rendered.

### **Borrowing costs**

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

### **Employee benefits**

#### *Pension scheme*

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

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

#### *Share options scheme*

The Company operates a share option scheme which was adopted subsequent to the balance sheet date on 21st August, 2003 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

#### **Cash and cash equivalents**

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

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

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## **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 products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the property development segment engages in the development of properties in Mainland of China; and
- (b) the property investment segment invests in service apartments, commercial and office buildings in Mainland of China for their rental income potential.

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

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

**Business segments**

The following tables present profit/(loss) and certain asset and liability and expenditure information for the Group's business segments.

*Group*

	<b>Property development</b>		<b>Property investment</b>		<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:						
Sales to external customers	6,712	43,064	—	—	6,712	43,064
Rental income	—	—	112,626	99,446	112,626	99,446
Other revenues	<u>3,829</u>	<u>1,856</u>	<u>25,888</u>	<u>19,596</u>	<u>29,717</u>	<u>21,452</u>
Total	<u>10,541</u>	<u>44,920</u>	<u>138,514</u>	<u>119,042</u>	<u>149,055</u>	<u>163,962</u>
Segment results	<u>18,626</u>	<u>(5,815)</u>	<u>88,671</u>	<u>54,292</u>	107,297	48,477
Interest income and other revenues					22,496	37,709
Unallocated expenses					(14,122)	(9,982)
Loss on disposal of a jointly-controlled entity					<u>(3,772)</u>	<u>—</u>
Profit from operating activities					111,899	76,204
Finance costs					(38,728)	(57,960)
Share of losses of associates	—	—	—	(43,742)	—	(43,742)
Impairment loss in amounts due from associates	—	—	(10,249)	(18,916)	(10,249)	(18,916)
Impairment loss in interests in jointly-controlled entities	—	(45,057)	—	—	<u>—</u>	<u>(45,057)</u>
Profit/(loss) before tax					62,922	(89,471)
Tax					<u>(4,103)</u>	<u>(2,352)</u>
Profit/(loss) before minority interests					58,819	(91,823)
Minority interests					<u>(1,824)</u>	<u>(2,153)</u>
Net profit/(loss) from ordinary activities attributable to shareholders					<u>56,995</u>	<u>(93,976)</u>

*Group*

	Property development		Property investment		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	1,043,984	844,875	5,501,455	5,506,990	6,545,439	6,351,865
Interests in associates	—	—	607,015	599,908	607,015	599,908
Interests in jointly- controlled entities	—	5,118	—	—	—	5,118
Unallocated assets					<u>69,928</u>	<u>54,146</u>
Total assets					<u>7,222,382</u>	<u>7,011,037</u>
Segment liabilities	68,666	80,249	85,514	77,030	154,180	157,279
Unallocated liabilities					<u>1,246,184</u>	<u>1,165,175</u>
Total liabilities					<u>1,400,364</u>	<u>1,322,454</u>
Other segment information:						
Depreciation	648	45	3,165	2,927	3,813	2,972
Gain on disposal of partial interest in a subsidiary	10,372	—	16,723	—	27,095	—
Write-back of provision for a deposit paid	3,632	—	—	—	3,632	—
Deficit on revaluation of investment properties	—	—	11,473	12,009	11,473	12,009
Deficit on revaluation of properties under development held for investment potential	—	—	28,862	158,849	28,862	158,849
Capital expenditure	<u>165,207</u>	<u>9,517</u>	<u>33,758</u>	<u>56,507</u>	<u>198,965</u>	<u>66,024</u>

**5. RELATED PARTY TRANSACTIONS**

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Interest income from an associate	(i)	20,959	36,919
Interest expense on loans from a substantial shareholder	(ii)	(228)	(2,318)
Rental expense paid to an associate of Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company	(iii)	(328)	(344)
Legal fees paid to a law firm, in which a director was a partner	(iv)	<u>(414)</u>	<u>—</u>

*Notes:*

- (i) The interest is charged on an advance made to an associate at the Hong Kong dollar prime rate plus 2% per annum. Details of the advance are included in note 19 to the financial statements.
- (ii) The interest is charged on the loans from a substantial shareholder. Details of the loans granted are included in note 27 to the financial statements.
- (iii) The annual rental charge was calculated by reference to the prevailing open market rentals.
- (iv) The legal fees were charged at market rates for legal services rendered to the Group by a law firm in which a director of the Company was admitted a partner during the year.

## 6. TURNOVER AND REVENUE

The Group is principally engaged in property development and property investment. Turnover comprises proceeds from the sale of completed properties for sale and rental income from investment properties. An analysis of turnover and other revenue is as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:		
Sale of completed properties for sale	6,712	43,064
Rental income from investment properties	<u>112,626</u>	<u>99,446</u>
	<u>119,338</u>	<u>142,510</u>
Other revenues:		
Management fee income	23,675	18,489
Interest income from:		
Bank deposits	773	790
An associate	20,959	36,919
Other income	<u>6,806</u>	<u>2,963</u>
	<u>52,213</u>	<u>59,161</u>
	<u><u>171,551</u></u>	<u><u>201,671</u></u>

## 7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	<b>Group</b>	
		<b>2003</b>	<b>2002</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration:			
Charge for the year		840	700
Underprovision in prior year		<u>100</u>	<u>—</u>
		<u>940</u>	<u>700</u>
Cost of completed properties for sale		4,629	49,249
Depreciation	14	4,025	3,092
Outgoings in respect of rental income		20,932	31,331
Guaranteed office rental returns		175	165
Guaranteed service apartment rental returns		3,068	2,929
Minimum lease payments under operating leases in respect of land and buildings		233	222
Staff costs (including directors' remuneration — note 9):			
Wages and salaries		22,749	17,200
Less: Amount capitalised in properties under development		<u>(11,870)</u>	<u>(7,003)</u>
		10,879	10,197
Pension scheme contributions		361	227
Less: Forfeited contributions		<u>(239)</u>	<u>(253)</u>
		<u>11,001</u>	<u>10,171</u>
Loss on disposal of fixed assets		—	9
Write-back of provision for a deposit paid		(3,632)	—
Negative goodwill recognised as income during the year*	17	(732)	—
Foreign exchange gains, net		<u>—</u>	<u>(57)</u>

\* The negative goodwill recognised in the profit and loss account for the year is included in "Other revenues" on the face of the consolidated profit and loss account.

## 8. FINANCE COSTS

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
Bank loans wholly repayable within five years	44,023	14,559
Bank loans wholly repayable beyond five years	—	40,571
Loans from a substantial shareholder	228	2,318
Bank charges	<u>4,168</u>	<u>4,983</u>
	48,419	62,431
Less: Interest capitalised in properties under development	<u>(9,691)</u>	<u>(4,471)</u>
	<u>38,728</u>	<u>57,960</u>

**9. DIRECTORS' REMUNERATION**

Directors' remuneration 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:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	252	225
Salaries, allowances and benefits in kind	6,530	2,920
Pension scheme contributions	<u>72</u>	<u>22</u>
	6,854	3,167
Capitalised in properties under development	<u>(5,224)</u>	<u>(2,336)</u>
	<u><u>1,630</u></u>	<u><u>831</u></u>

Fees include HK\$120,000 (2002: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>2003</b>	<b>2002</b>
Nil – HK\$1,000,000	12	14
HK\$1,000,001 – HK\$1,500,000	<u>3</u>	<u>1</u>
	<u><u>15</u></u>	<u><u>15</u></u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

**10. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included four (2002: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2002: two) non-director, highest paid employee are set out below:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,200	1,565
Pension scheme contributions	<u>5</u>	<u>12</u>
	1,205	1,577
Capitalised in properties under development	<u>—</u>	<u>(550)</u>
	<u><u>1,205</u></u>	<u><u>1,027</u></u>

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

	<b>Number of employees</b>	
	<b>2003</b>	<b>2002</b>
Nil – HK\$1,000,000	—	2
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>—</u>
	<u><u>1</u></u>	<u><u>2</u></u>

**11. TAX**

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2002: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Charge for the year for Mainland of China profits tax	3,567	3,000
Overprovision of Mainland of China profits tax in prior years	<u>(464)</u>	<u>(648)</u>
	3,103	2,352
Underprovision of Hong Kong profits tax in prior years	<u>1,000</u>	<u>—</u>
Tax charge for the year	<u><u>4,103</u></u>	<u><u>2,352</u></u>

In connection with the listing of the Company on The Stock Exchange of Hong Kong Limited (currently on the Main Board) (the "Listing"), tax indemnity deeds were signed on 12th November, 1997, pursuant to which Lai Sun Development Company Limited ("LSD") has undertaken to indemnify the Group in respect of certain potential Mainland of China income taxes and land appreciation taxes ("LAT") payable or shared by the Group in consequence of the disposal of any of the property interests attributable to the Group through its subsidiaries and its associates as at 31st October, 1997 (the "Property Interests"). These tax indemnities given by LSD apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited 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 value attributed to them in the Valuation, computed by reference to the rates and legislation governing Mainland of China income tax and LAT prevailing at the time of the Valuation. The indemnities given by LSD do not cover (i) new properties acquired by the Group subsequent to the Listing; (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of the Group as set out in the Company's prospectus dated 18th November, 1997.

The Group had no LAT payable during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

**12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31st July, 2003 was HK\$5,258,000 (2002: HK\$7,459,000).

**13. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$56,995,000 (2002: net loss of HK\$93,976,000) and the weighted average of 4,048,864,263 (2002: 3,180,247,007) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year. The weighted average number of ordinary shares in issue for the year ended 31st July, 2002 was not restated because there was no bonus element resulting from the aforementioned rights issue.

The diluted earnings/(loss) per share for the years ended 31st July, 2003 and 2002 have not been disclosed as no diluting events existed during these years.



## 14. FIXED ASSETS

## Group

	31st July, 2002 <i>HK\$'000</i>	Additions <i>HK\$'000</i>	Disposals <i>HK\$'000</i>	31st July, 2003 <i>HK\$'000</i>
Cost:				
Leasehold land and buildings	46,119	2,996	—	49,115
Leasehold improvements	31	—	—	31
Furniture, fixtures and equipment	13,813	1,350	(71)	15,092
Motor vehicles	1,644	2,000	(45)	3,599
Computers	<u>1,493</u>	<u>78</u>	<u>(2)</u>	<u>1,569</u>
	<u>63,100</u>	<u>6,424</u>	<u>(118)</u>	<u>69,406</u>
Accumulated depreciation:				
Leasehold land and buildings	1,281	1,448	—	2,729
Leasehold improvements	10	6	—	16
Furniture, fixtures and equipment	9,263	1,908	(25)	11,146
Motor vehicles	1,279	370	(41)	1,608
Computers	<u>987</u>	<u>293</u>	<u>(1)</u>	<u>1,279</u>
	<u>12,820</u>	<u>4,025</u>	<u>(67)</u>	<u>16,778</u>
Net book value	<u>50,280</u>			<u>52,628</u>

The Group's leasehold land and buildings as at 31st July, 2003 are situated in Mainland of China and are held under medium term leases.

## 15. INVESTMENT PROPERTIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At beginning of year, at valuation	2,952,400	2,954,000
Additions	5,773	10,409
Deficit on revaluation	<u>(11,473)</u>	<u>(12,009)</u>
At end of year, at valuation	<u>2,946,700</u>	<u>2,952,400</u>

At 31st July, 2003, the investment properties were revalued by Chesterton Petty Limited, independent professionally qualified valuers, at HK\$2,946,700,000 (2002: HK\$2,952,400,000) on an open market value basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 33(a) to the financial statements.

The investment properties are situated in Mainland of China and are held under medium term leases.

At 31st July, 2003, certain investment properties with a carrying value of approximately HK\$2,892,530,000 (2002: HK\$2,872,520,000) have been pledged to a bank to secure banking facilities granted to the Group as further set out in note 25 to the financial statements.

## 16. PROPERTIES UNDER DEVELOPMENT

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties under development held for investment potential, at valuation:		
At beginning of year	2,475,382	2,630,144
Interest capitalised, net	3,889	3,482
Other additions	24,439	45,842
Reclassified to fixed assets	—	(46,119)
Deficit on revaluation	(28,862)	(158,849)
Exchange realignments	<u>(386)</u>	<u>882</u>
At end of year	<u>2,474,462</u>	<u>2,475,382</u>
Properties under development held for purposes other than investment potential, at cost:		
At beginning of year	734,598	724,423
Interest capitalised, net	5,802	989
Other additions	163,125	8,847
Exchange realignments	<u>(257)</u>	<u>339</u>
At end of year	<u>903,268</u>	<u>734,598</u>
Total balance at end of year	<u>3,377,730</u>	<u>3,209,980</u>

At 31st July, 2003, properties under development held for investment potential were revalued by Chesterton Petty Limited, independent professionally qualified valuers, on an open market value basis.

An analysis by lease term of the carrying value of the properties under development held for investment potential and held for purposes other than investment potential is as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties under development held for investment potential, at valuation:		
Leases of 10 to 50 years	1,976,462	1,966,382
Leases of over 50 years	<u>498,000</u>	<u>509,000</u>
	<u>2,474,462</u>	<u>2,475,382</u>
Properties under development held for purposes other than investment potential, at cost:		
Leases of 10 to 50 years	131,144	120,263
Leases of over 50 years	<u>772,124</u>	<u>614,335</u>
	<u>903,268</u>	<u>734,598</u>
	<u>3,377,730</u>	<u>3,209,980</u>

All properties under development are situated in Mainland of China.

At 31st July, 2003, certain properties under development with a carrying value amounting to approximately HK\$1,303,830,000 (2002: HK\$485,645,000) were pledged to banks to secure banking facilities granted to the Group as further set out in note 25 to the financial statements.

**17. GOODWILL AND NEGATIVE GOODWILL**

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

	<b>Group Negative goodwill HK\$'000</b>
Gross amount:	
Arising from acquisition of additional interest in a subsidiary during the year and balance as at 31st July, 2003	<u>(29,115)</u>
Accumulated recognition as income:	
Amount recognised as income during the year and balance as at 31st July, 2003	<u>732</u>
Net book value:	
At 31st July, 2003	<u><u>(28,383)</u></u>

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st August, 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of the goodwill and negative goodwill remaining in consolidated reserves as at 31st July, 2003 arising from the acquisition of subsidiaries prior to 1st August, 2001, are as follows:

	<b>Goodwill eliminated against consolidated accumulated losses HK\$'000</b>	<b>Goodwill eliminated against capital reserve HK\$'000</b>	<b>Negative goodwill credited to capital reserve HK\$'000</b>	<b>Total HK\$'000</b>
Cost:				
At beginning of year	18,019	457	(181,749)	(163,273)
Disposal of partial interest in a subsidiary	<u>(4,054)</u>	<u>—</u>	<u>—</u>	<u>(4,054)</u>
At 31st July, 2003	<u><u>13,965</u></u>	<u><u>457</u></u>	<u><u>(181,749)</u></u>	<u><u>(167,327)</u></u>

**18. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2003 HK\$'000</b>	<b>2002 HK\$'000</b>
Unlisted shares, at cost	144,272	144,272
Amounts due from subsidiaries	3,287,630	3,255,231
Amounts due to subsidiaries	<u>(6,983)</u>	<u>(6,983)</u>
	<u><u>3,424,919</u></u>	<u><u>3,392,520</u></u>

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

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beautiwin Limited	Hong Kong	HK\$2	—	100	Investment holding
Goldthorpe Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK\$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK\$2	—	100	Investment holding
Guangzhou Beautiwin Real Estate Development Co., Ltd.*	Mainland of China	RMB100,000,000	—	100**	Property development and investment
Guangzhou Grand Wealth Properties Ltd.*	Mainland of China	HK\$138,000,000	—	100**	Property development and investment
Guangzhou Gongbird Property Development Ltd.*	Mainland of China	US\$22,160,000	—	100**	Property development and investment
Guangzhou Jieli Real Estate Development Co., Ltd.*	Mainland of China	HK\$168,000,000	—	77.5**	Property development and investment
Lai Fung Company Limited	Hong Kong	HK\$20	100	—	Investment holding
Nicebird Company Limited	Hong Kong	HK\$2	—	100	Investment holding
Shanghai Li Xing Real Estate Development Co., Ltd.*	Mainland of China	US\$36,000,000	—	95	Property investment
Sunlite Investment Limited	Hong Kong	HK\$2	—	100	Investment holding
Wealthy Grow Limited	Hong Kong	HK\$2	—	100	Investment holding
Topsider International Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK\$2	—	100	Investment holding
Shanghai HKP Property Management Limited*	Mainland of China	US\$150,000	—	100	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.*	Mainland of China	US\$10,000,000	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Property investment
Preparis Company Limited	Hong Kong	HK\$20	—	100	Investment holding

\* These subsidiaries have registered capital rather than issued share capital.

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

The above table lists the subsidiaries 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At 31st July, 2003, the shares in certain subsidiaries were pledged to secure bank loan facilities granted to the Group (note 25).

During the year, the Group acquired Preparis Company Limited ("Preparis"), further details of which are set out in note 21 to the financial statements.

## 19. INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets other than goodwill	—	—
Amounts due from associates	<u>653,967</u>	<u>636,611</u>
	653,967	636,611
Less: Provision for impairment	<u>(46,952)</u>	<u>(36,703)</u>
	<u><u>607,015</u></u>	<u><u>599,908</u></u>

Except for an amount of HK\$298,079,000 (2002: HK\$433,208,000) due from an associate which bears interest at the Hong Kong dollar prime rate plus 2% per annum, the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Included in the above balance of "Share of net assets other than goodwill" is interest capitalised of HK\$72,095,000 (2002: HK\$72,095,000) on borrowings previously obtained for investments in associates engaged in property development.

Details of the principal associates are as follows:

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

All the above associates are indirectly held by the Company.

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

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

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.

## 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets other than goodwill	42,284	50,912
Amount due from/(to) a jointly-controlled entity	<u>276</u>	<u>(737)</u>
	42,560	50,175
Less: Provision for impairment	<u>(42,560)</u>	<u>(45,057)</u>
	<u>—</u>	<u>5,118</u>

Included in the above balance of “Share of net assets” is interest capitalised of approximately HK\$18,503,000 (2002: HK\$18,503,000) on borrowings previously obtained for investments in jointly-controlled entities engaged in property development.

The balance with the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Details of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Zhong Shan Li Shan Properties Development Limited	Corporate	Mainland of China	50	50	50	Property development

The interest in the jointly-controlled entity is indirectly held by the Company.

## 21. LONG-TERM INVESTMENTS

The balance represents investment in the corporate debentures issued by a country club.

On 24th June, 2003, Lai Fung Company Limited (“LFC”), a wholly-owned subsidiary of the Company, entered into an agreement with Basingstoke International Limited (“Basingstoke”), a wholly-owned subsidiary of LSD, pursuant to which Basingstoke agreed to sell and LFC agreed to purchase the entire issue share capital of Prepara, a then wholly-owned subsidiary of Basingstoke, for a total consideration of HK\$2,300,000. The sole assets of Prepara are the corporate debentures issued by a country club. The transaction was completed on 25th June, 2003. As LSG held a 46.04% interest in the Company and a 42.25% interest in LSD as at the date of the transaction, the transaction constituted a related party and connected transaction for the Company as defined under SSAP 20 and the Listing Rules, respectively. However, as the consideration represented less than 3% of the book value of the net tangible assets of the Group, the transaction was only subject to the disclosure requirements set out in Chapter 14 of the Listing Rules and shareholders’ approval was not required.

## 22. COMPLETED PROPERTIES FOR SALE

The completed properties for sale are stated at their net realisable values at both 31st July, 2003 and 31st July, 2002.

## 23. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms granted by the Group range from 30 to 180 days. An aged analysis of the Group’s debtors, based on the invoice date, as at 31st July, 2003 is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Amounts not yet due	—	1,735
Overdue by 30 days	—	1,510
Overdue by 60 days	1,036	3,368
Overdue by 90 days	—	1,445
Overdue by more than 90 days	9,178	23,724
Trade receivables	10,214	31,782
Deposits and prepayments	30,951	23,590
Total	41,165	55,372

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

	Notes	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances		130,940	87,081	815	86
Time deposits		<u>58,034</u>	<u>20,901</u>	<u>48,025</u>	<u>20,306</u>
		188,974	107,982	48,840	20,392
Less: Pledged bank balances	25	(1,459)	(11,698)	—	—
Pledged time deposits	25	<u>(10,007)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents		<u><u>177,508</u></u>	<u><u>96,284</u></u>	<u><u>48,840</u></u>	<u><u>20,392</u></u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$125,017,000 (2002: HK\$82,038,000). Currently RMB is not freely convertible into other currencies, however, under Mainland of China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks which are authorised to conduct foreign exchange business.

## 25. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans repayable:		
Within one year	47,126	138,006
In the second year	145,772	47,138
In the third to fifth years, inclusive	928,590	493,688
Beyond five years	<u>—</u>	<u>288,619</u>
	1,121,488	967,451
Portion classified as current liabilities	<u>(47,126)</u>	<u>(138,006)</u>
Long term portion	<u><u>1,074,362</u></u>	<u><u>829,445</u></u>

The Group’s bank loans are secured by:

- (a) the pledge of certain of the Group’s properties under development with carrying value of HK\$1,303,830,000 (2002: HK\$485,645,000) at the balance sheet date;
- (b) mortgages over the Group’s investment properties, with carrying value of HK\$2,892,530,000 (2002: HK\$2,872,520,000) at the balance sheet date;
- (c) the pledge of the Group’s bank balances and time deposits of HK\$1,459,000 (2002: HK\$11,698,000) and HK\$10,007,000 (2002: Nil), respectively;
- (d) mortgages over the entire registered capital of two of the Group’s subsidiaries; and
- (e) corporate guarantees provided by the Company.



**26. CREDITORS AND ACCRUALS**

The aged analysis of the Group's creditors as at 31st July, 2003, based on the invoice date, is as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	4,665	6,569
Between 1 to 3 months	145	167
Over 3 months	<u>68,458</u>	<u>56,720</u>
Trade payables	73,268	63,456
Accruals and other creditors	<u>142,074</u>	<u>163,969</u>
Total	<u><u>215,342</u></u>	<u><u>227,425</u></u>

**27. LOANS FROM A SUBSTANTIAL SHAREHOLDER**

During the year, the following loans were granted by a substantial shareholder to the Group:

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing at best lending rate quoted by a specified bank	—	787	—	787
Interest-bearing at LIBOR	—	20,238	—	—
Interest-free	<u>16,170</u>	<u>65,861</u>	—	<u>5,838</u>
	16,170	86,886	—	6,625
Portion classified as current liabilities	<u>(16,170)</u>	—	—	—
Long term portion	<u><u>—</u></u>	<u><u>86,886</u></u>	<u><u>—</u></u>	<u><u>6,625</u></u>

**28. DEFERRED TAX**

At the balance sheet date, the Group's unprovided deferred tax liabilities arising from the revaluation of investment properties and properties under development amounted to HK\$221,907,000 (2002: HK\$231,978,000) and HK\$825,492,000 (2002: HK\$838,400,000) in respect of LAT and income tax, respectively. In the opinion of the directors, the deferred tax liabilities are not expected to crystallise in the foreseeable future since the Group has no intention to dispose of these revalued properties.

Indemnities on certain tax liabilities arising from the disposal of the Group's properties under development, completed properties for sale and other properties were given by LSD. Details of the indemnities are included in note 11 to the financial statements.

## 29. SHARE CAPITAL

## Shares

	Number of shares 2003 '000	Nominal value 2003 HK\$'000	Number of shares 2002 '000	Nominal value 2002 HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>7,000,000</u>	<u>700,000</u>	<u>7,000,000</u>	<u>700,000</u>
Issued and fully paid:				
Ordinary shares of HK\$ 0.10 each	<u>4,606,241</u>	<u>460,624</u>	<u>3,838,534</u>	<u>383,853</u>

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1st August, 2001		3,070,827	307,083	3,228,831	3,535,914
Rights issue	(b)	767,707	76,770	—	76,770
Share issue expenses		<u>—</u>	<u>—</u>	<u>(3,142)</u>	<u>(3,142)</u>
At 31st July, 2002 and 1st August, 2002		3,838,534	383,853	3,225,689	3,609,542
Rights issue	(a)	767,707	76,771	—	76,771
Share issue expenses		<u>—</u>	<u>—</u>	<u>(3,413)</u>	<u>(3,413)</u>
At 31st July, 2003		<u>4,606,241</u>	<u>460,624</u>	<u>3,222,276</u>	<u>3,682,900</u>

## Notes:

- (a) During the year of 2003, a rights issue of one rights share for every five existing shares held by members on the register of members on 31st March, 2003 was made, at an issued price of HK\$0.10 per rights share, resulting in the issue of 767,706,730 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$76,770,000, which was used as working capital of the Group.
- (b) During the year of 2002, a rights issue of one rights share for every four existing shares held by members on the register of members on 31st May, 2002 was made, at an issued price of HK\$0.10 per rights share, resulting in the issue of 767,706,730 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$76,770,000, which was used as working capital of the Group.

## Share options

Subsequent to the balance sheet date, on 21st August, 2003, the Company adopted a share option scheme. Further details of the scheme are included in note 30 to the financial statements.

## 30. SHARE OPTION SCHEME

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

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

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

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

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

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

On 19th September, 2003, a total of 92,124,800 share options were granted to two directors of the Company in respect of their services to the Group in the forthcoming year. These share options have an exercise price of HK\$0.169 per share and exercise period ranging from 3rd October, 2003 to 2nd October, 2011. The price of the Company's shares at the date of grant was HK\$0.161 per share.

### **31. RESERVES**

#### **(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 and 37 of the financial statements.

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated accumulated losses and credited to the capital reserve, as explained in note 17 to the financial statements.

## (b) Company

	<i>Note</i>	Share premium account <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st August, 2001		3,228,831	(9,558)	(188,713)	3,030,560
Share issue expenses	29	(3,142)	—	—	(3,142)
Loss for the year		—	—	(7,459)	(7,459)
At 31st July, 2002 and 1st August, 2002		3,225,689	(9,558)	(196,172)	3,019,959
Share issue expenses	29	(3,413)	—	—	(3,413)
Loss for the year		—	—	(5,258)	(5,258)
At 31st July, 2003		<u>3,222,276</u>	<u>(9,558)</u>	<u>(201,430)</u>	<u>3,011,288</u>

## 32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

	<i>Note</i>	2003 <i>HK\$'000</i>
Net assets acquired:		
Long-term investments	21	<u>2,300</u>
Satisfied by:		
Cash		<u>2,300</u>

The net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is HK\$2,300,000.

## 33. OPERATING LEASE ARRANGEMENTS

## (a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from two months to ten years. The terms of the leases generally also require the tenants to pay security deposits.

At 31st July, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	58,532	59,202
In the second to fifth years, inclusive	112,730	119,387
After five years	<u>65,002</u>	<u>83,147</u>
	<u>236,264</u>	<u>261,736</u>

## (b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms of two years.

At 31st July, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	97	233
In the second to fifth years, inclusive	<u>—</u>	<u>97</u>
	<u>97</u>	<u>330</u>

### 34. CONTINGENT LIABILITIES

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

	<b>Company</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>1,280,000</u>	<u>1,166,000</u>

As at 31st July, 2003, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$1,027,237,000 (2002: HK\$967,000,000).

- (b) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.
- (c) Under a mortgage loan facility provided by another bank to the end-buyers of Eastern Place Phase I and Phase II, the Company agreed to provide guarantees to the bank to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

### 35. COMMITMENTS

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

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:		
Land premium, resettlement, compensation and construction costs	<u>744,917</u>	<u>560,937</u>

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

### 36. COMPARATIVE AMOUNTS

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

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7th November, 2003.

## 3. UNAUDITED INTERIM RESULTS

The following is an extract of the unaudited interim results of the Group for the six months ended 31st January, 2004, as set out in the Company's interim report for the six months ended 31st January, 2004:

**Condensed Consolidated Profit and Loss Account**

*For the six months ended 31st January, 2004*

	<i>Notes</i>	<b>Six months ended</b>	
		<b>31st January,</b>	<b>2003</b>
		<b>2004</b>	<b>2003</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>Restated</b>	<b>Restated</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	143,143	63,472
Cost of sales		<u>(83,157)</u>	<u>(13,278)</u>
Gross profit		59,986	50,194
Other revenues		26,513	23,032
Selling and marketing expenses		(4,836)	—
Administrative expenses		(33,752)	(31,388)
Recovery of impairment loss in interest in a jointly controlled entity		<u>42,555</u>	<u>—</u>
PROFIT FROM OPERATING ACTIVITIES	3	90,466	41,838
Finance costs	4	(16,776)	(22,347)
Share of losses of associates		—	(1,546)
Impairment loss in amounts due from associates		(7,427)	—
Impairment loss in interest in a jointly-controlled entity		<u>—</u>	<u>(2,118)</u>
PROFIT BEFORE TAX		66,263	15,827
TAX	5	<u>(15,534)</u>	<u>(2,501)</u>
PROFIT BEFORE MINORITY INTERESTS		50,729	13,326
Minority interests		<u>(659)</u>	<u>(675)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>50,070</u>	<u>12,651</u>
EARNINGS PER SHARE	6		
Basic		<u>1.08 cents</u>	<u>0.33 cents</u>
Diluted		<u>1.08 cents</u>	<u>N/A</u>

**Condensed Consolidated Balance Sheet***As at 31st January, 2004*

		<b>31st January, 2004 (unaudited)</b>	<b>31st July, 2003 (audited) Restated</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		54,721	52,628
Investment properties		2,955,000	2,946,700
Negative goodwill	7	(10,345)	(10,480)
Properties under development		3,959,245	3,377,730
Interests in associates		578,156	574,565
Long-term investments		<u>2,300</u>	<u>2,300</u>
		<u>7,539,077</u>	<u>6,943,443</u>
<b>CURRENT ASSETS</b>			
Completed properties for sale		13,214	16,168
Debtors, deposits and prepayments	8	40,061	41,165
Tax recoverable		17,625	18,085
Pledged time deposits and bank balances		16,444	11,466
Cash and cash equivalents		<u>280,608</u>	<u>177,508</u>
		<u>367,952</u>	<u>264,392</u>
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured		134,399	47,126
Tax payable		11,385	7,567
Deposits received		46,758	17,406
Rental deposits received		16,232	9,725
Creditors and accruals	9	227,202	215,342
Loans from a substantial shareholder	10	<u>39,634</u>	<u>16,170</u>
		<u>475,610</u>	<u>313,336</u>
<b>NET CURRENT LIABILITIES</b>		(107,658)	(48,944)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		7,431,419	6,894,499
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured		(1,096,371)	(1,074,362)
Long-term rental deposits received		(7,109)	(12,666)
Deferred tax liabilities		<u>(806,850)</u>	<u>(555,783)</u>
		<u>(1,910,330)</u>	<u>(1,642,811)</u>
<b>MINORITY INTERESTS</b>		<u>(219,717)</u>	<u>(174,318)</u>
		<u>5,301,372</u>	<u>5,077,370</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	469,836	460,624
Reserves		<u>4,831,536</u>	<u>4,616,746</u>
		<u>5,301,372</u>	<u>5,077,370</u>

**Condensed Consolidated Statement of Changes Equity***For the six months ended 31st January, 2004*

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Investment properties revaluation reserve <i>HK\$'000</i>	Revaluation reserve of properties under development held for investment potential <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st August, 2003, as previously reported (audited)	460,624	3,222,276	17,349	417,384	1,329,918	181,292	(26,571)	5,602,272
Prior year adjustments in respect of deferred tax	—	—	—	(146,620)	(64,492)	(123,229)	(190,561)	(524,902)
Restated	460,624	3,222,276	17,349	270,764	1,265,426	58,063	(217,132)	5,077,370
Exercise of share options	9,212	6,357	—	—	—	—	—	15,569
Exchange realignments	—	—	1,030	—	—	—	—	1,030
Increase in revaluation surplus upon reclassification of properties under development held for other than investment potential to held for investment potential	—	—	—	—	90,902	—	—	90,902
Surplus on revaluation	—	—	—	1,219	252,011	—	—	253,230
Deferred tax charged to equity	—	—	—	—	(186,799)	—	—	(186,799)
Net gains and losses not recognised in the profit and loss account	—	—	1,030	1,219	156,114	—	—	158,363
Profit for the period	—	—	—	—	—	—	50,070	50,070
At 31st January, 2004 (unaudited)	<u>469,836</u>	<u>3,228,633*</u>	<u>18,379*</u>	<u>271,983*</u>	<u>1,421,540*</u>	<u>58,063*</u>	<u>(167,062)*</u>	<u>5,301,372</u>
At 1st August, 2002, as previously reported (audited)	383,853	3,225,689	18,057	426,211	1,376,016	181,292	(87,620)	5,523,498
Prior year adjustments in respect of deferred tax	—	—	—	(149,803)	—	(123,229)	(137,919)	(410,951)
Restated	383,853	3,225,689	18,057	276,408	1,376,016	58,063	(225,539)	5,112,547
Exchange realignments	—	—	(695)	—	—	—	—	(695)
Deficit on revaluation	—	—	—	(3,036)	—	—	—	(3,036)
Deferred tax credited to equity	—	—	—	1,096	—	—	—	1,096
Net gains and losses not recognised in the profit and loss account	—	—	(695)	(1,940)	—	—	—	(2,635)
Profit for the period	—	—	—	—	—	—	12,651	12,651
At 31st January, 2003 (unaudited)	<u>383,853</u>	<u>3,225,689*</u>	<u>17,362*</u>	<u>274,468*</u>	<u>1,376,016*</u>	<u>58,063*</u>	<u>(212,888)*</u>	<u>5,122,563</u>

\* These reserve accounts comprise the consolidated reserves of HK\$4,831,536,000 (as at 31st January, 2003: HK\$4,738,710,000) in the consolidated balance sheet.



**Condensed consolidated Cash Flow Statement***For the six months ended 31st January, 2004*

	<b>Six months ended</b>	
	<b>31st January,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH FROM OPERATING ACTIVITIES	54,467	19,697
NET CASH USED IN INVESTING ACTIVITIES	(108,391)	(67,616)
NET CASH FROM FINANCING ACTIVITIES	<u>151,181</u>	<u>82,433</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,257	34,514
Cash and cash equivalents at beginning of period	177,508	107,982
Exchange realignments	<u>5,843</u>	<u>(542)</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>280,608</u></u>	<u><u>141,954</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	267,605	135,216
Non-pledged time deposits with original maturity of less than three months when acquired	<u>13,003</u>	<u>6,738</u>
	<u><u>280,608</u></u>	<u><u>141,954</u></u>

**Notes****1. PRINCIPAL ACCOUNTING POLICIES**

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for the revaluation of investment properties and properties under development held for investment potential, and have been prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25), “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31st July, 2003, except that the Group has adopted the revised Statement of Standard Accounting Practice 12 “Income Taxes” (“SSAP 12 (Revised)”) which become effective for the current accounting period.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosure for deferred tax. In prior years, deferred tax liabilities was provided, using the income statement liability method, on all significant timing differences to the extent it was probable that the liability would crystallise in the foreseeable future. A deferred asset was not recognised until its realisation was assured beyond reasonable doubt.

SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy resulting from the adoption of SSAP 12 (Revised) has been applied retrospectively. Comparative amounts for prior period have been restated accordingly.

## 2. SEGMENT REVENUE AND RESULTS

**Business segments***Group*

	Property development		Property investment		Consolidated	
	Six months ended		Six months ended		Six months ended	
	31st January,		31st January,		31st January,	
	2004	2003	2004	2003	2004	2003
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
	Restated		Restated		Restated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	83,228	1,167	—	—	83,228	1,167
Rental income	—	—	59,915	62,305	59,915	62,305
Other revenue	—	—	15,418	12,055	15,418	12,055
	<u>83,228</u>	<u>1,167</u>	<u>75,333</u>	<u>74,360</u>	<u>158,561</u>	<u>75,527</u>
Total	<u>83,228</u>	<u>1,167</u>	<u>75,333</u>	<u>74,360</u>	<u>158,561</u>	<u>75,527</u>
Segment results	<u>8,151</u>	<u>86</u>	<u>36,235</u>	<u>36,803</u>	44,386	36,889
Interest income					11,095	10,977
Unallocated expenses					(7,570)	(6,028)
Recovery of impairment loss in interest in a jointly-controlled entity	42,555				<u>42,555</u>	<u>—</u>
Profit from operating activities					90,466	41,838
Finance costs					(16,776)	(22,347)
Share of losses of associates				(1,546)	—	(1,546)
Impairment loss in amounts due from associates			(7,427)		(7,427)	—
Impairment loss in interest in a jointly-controlled entity		(2,118)			<u>—</u>	<u>(2,118)</u>
Profit before tax					66,263	15,827
Tax					<u>(15,534)</u>	<u>(2,501)</u>
Profit before minority interests					50,729	13,326
Minority interests					<u>(659)</u>	<u>(675)</u>
Net profit from ordinary activities attributable to shareholders					<u>50,070</u>	<u>12,651</u>

No geographical analysis is presented as over 90% of the Group's customers and assets are located in the Mainland of China (the "PRC").

**3. PROFIT FROM OPERATING ACTIVITIES**

	<b>Six months ended</b>	
	<b>31st January,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>Restated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is arrived at after charging/(crediting):		
Cost of completed properties developed for sale recognised*	—	1,081
Cost of properties under development held for purposes other than investment potential recognised	70,241	—
Depreciation	1,683	1,584
Negative goodwill recognised as income during the period	<u>(135)</u>	<u>(135)</u>

\* amount for the six months ended 31st January, 2003 included overprovision for completed properties for sales to net realisable value of HK\$200,000.

**4. FINANCE COSTS**

	<b>Six months ended</b>	
	<b>31st January,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>Restated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on:		
Bank loans repayable within five years	22,627	22,719
Loans from a substantial shareholder	549	181
Bank charges	<u>2,586</u>	<u>2,748</u>
	<u>25,762</u>	<u>25,648</u>
Less: Amounts capitalised in properties under development	<u>(8,986)</u>	<u>(3,301)</u>
	<u>16,776</u>	<u>22,347</u>

**5. TAX**

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the period (six months ended 31st January, 2003: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended</b>	
	<b>31st January,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>Restated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Charge for the period for Mainland of China profits tax	5,266	—
Deferred tax	<u>10,268</u>	<u>2,673</u>
	15,534	2,673
Share of tax attributable to associates	<u>—</u>	<u>(172)</u>
Tax charge for the period	<u><u>15,534</u></u>	<u><u>2,501</u></u>

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$50,070,000 (six months ended 31st January, 2003 — restated: HK\$12,651,000), and the weighted average of 4,618,256,661 (six months ended 31st January, 2003: 3,838,533,653) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$50,070,000, and the diluted weighted average of 4,627,289,516 ordinary shares in issue during the period.

The diluted earnings per share for the six months ended 31st January, 2003 has not been shown because there were no potential ordinary shares outstanding during that period.

## 7. NEGATIVE GOODWILL

	<b>31st January,</b>	<b>31st July,</b>
	<b>2004</b>	<b>2003</b>
	<b>(unaudited)</b>	<b>(audited)</b>
		<b>Restated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Negative goodwill:		
Arising on acquisition of additional interest in a subsidiary	<u>(10,750)</u>	<u>(10,750)</u>
Accumulated amortisation:		
Amount at beginning of period	270	—
Amount recognised as income during the period	<u>135</u>	<u>270</u>
Amount at end of period	<u>405</u>	<u>270</u>
Net book value	<u><u>(10,345)</u></u>	<u><u>(10,480)</u></u>

**8. DEBTORS, DEPOSITS AND PREPAYMENTS**

The credit terms of the Group range from 30 to 180 days. The aged analysis of debtors, based on the invoice date, as at 31st January, 2004 is as follows:

	<b>31st January, 2004</b> (unaudited) <i>HK\$'000</i>	<b>31st July, 2003</b> (audited) <i>HK\$'000</i>
Overdue by 60 days	—	1,036
Overdue by more than 90 days	<u>7,404</u>	<u>9,178</u>
Trade receivables	7,404	10,214
Deposits and prepayments	<u>32,657</u>	<u>30,951</u>
Total	<u><u>40,061</u></u>	<u><u>41,165</u></u>

**9. CREDITORS AND ACCRUALS**

The aged analysis of creditors, based on the invoice date, as at 31st January, 2004 is as follows:

	<b>31st January, 2004</b> (unaudited) <i>HK\$'000</i>	<b>31st July, 2003</b> (audited) <i>HK\$'000</i>
Within 1 month	10,181	4,665
Between 1 to 3 months	1,708	145
Over 3 months	<u>63,654</u>	<u>68,458</u>
Trade payables	75,543	73,268
Accruals and other creditors	<u>151,659</u>	<u>142,074</u>
Total	<u><u>227,202</u></u>	<u><u>215,342</u></u>

**10. LOANS FROM A SUBSTANTIAL SHAREHOLDER**

The following loans were granted by a substantial shareholder to the Group:

	<b>31st January, 2004</b> (unaudited) <i>HK\$'000</i>	<b>31st July, 2003</b> (audited) <i>HK\$'000</i>
Interest-bearing at best lending rate quoted by a specified bank	25,357	—
Interest-free	<u>14,277</u>	<u>16,170</u>
Total	<u><u>39,634</u></u>	<u><u>16,170</u></u>

All the loans above are unsecured and repayable on demand.

## 11. SHARE CAPITAL

	Number of shares 31st January, 2004 (unaudited) '000	Nominal value 31st January, 2004 (unaudited) HK\$'000	Number of shares 31st July, 2003 (audited) '000	Nominal Value 31st July, 2003 (audited) HK\$'000
Authorised:				
Ordinary share of HK\$0.10 each	<u>7,000,000</u>	<u>700,000</u>	<u>7,000,000</u>	<u>700,000</u>
Issued and fully paid:				
Ordinary share of HK\$0.10 each	<u>4,698,365</u>	<u>469,836</u>	<u>4,606,241</u>	<u>460,624</u>

## 12. RELATED PARTY TRANSACTIONS

		Six months ended 31st January,	
		2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Interest income from an associate	(a)	10,770	10,612
Interest expense on loans from a substantial shareholder	(b)	(549)	(181)
Rental expense paid to an associate of Lai Sun Garment (International) Limited	(c)	(170)	(179)
Legal fees paid to a law firm, in which a director is a partner	(d)	(241)	—

- (a) The interest is charged on an advance made to an associate at Hong Kong dollar prime rate plus 2% per annum. The amounts due are unsecured and have no fixed terms of repayment.
- (b) The interest is charged on the loans from a substantial shareholder. Details of the loans granted are included in note 10 to the financial statements.
- (c) The rental charge was calculated by reference to the prevailing open market rentals.
- (d) The legal fees were charged at market rates for legal services rendered to the Group by a law firm in which a director of the Company is a partner.

## 13. CONTINGENT LIABILITIES

As at 31st January, 2004, the Group had contingent liabilities in the respect of the following:

- (a) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartments units of Hong Kong Plaza, Shanghai, the Company agreed to guarantee up to 95% of the liabilities of a subsidiary for the due performance of its undertaking to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.
- (b) Under mortgage loan facilities provided by banks to the end-buyers of Phase I to III of Eastern Place, Guangzhou, and Phase I of Regents Park, Shanghai, the Company agreed to provide guarantees to the banks to buy back the relevant property in case of default by the borrowers. It is not practical to determine the outstanding amount of the contingent liabilities of the Company at the balance sheet date.

**14. COMMITMENTS**

As at 31st January, 2004, the Group has the following capital commitment:

	<b>31st January, 2004 (unaudited) HK\$'000</b>	<b>31st July, 2003 (audited) HK\$'000</b>
Contracted, but not provided for:		
Land premium, resettlement and compensation, and construction costs	671,421	744,917
Capital contribution to a subsidiary in the PRC	<u>25,500</u>	<u>—</u>
Total	<u><u>696,921</u></u>	<u><u>744,917</u></u>

**15. COMPARATIVE AMOUNTS**

As further explained in note 1 to the condensed consolidated financial statements, due to the adoption of a revised SSAP during the current period, the accounting treatment and presentation of certain items and balances in the interim financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified, to conform with the current period's presentation.

**16. APPROVAL OF THE FINANCIAL STATEMENTS**

The interim financial report was reviewed by the Company's audit committee and it was approved and authorised for issue by the board of directors on 16th April, 2004.



#### 4A. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following pro forma statement of unaudited adjusted consolidated net tangible assets of the Group is based on the published unaudited consolidated net tangible assets of the Group as at 31st January, 2004, as shown in the “Unaudited Interim Results” set out in Appendix I to this prospectus and adjusted for the effect of the Rights Issue. It has been compiled for illustrative purposes only, to provide the Shareholders with information about the impact of the Rights Issue, and, because of its nature, may not give a true picture of the financial position or results of the Group.

	<b>As at 31st January, 2004 Unaudited HK\$'000</b>	<b>Estimated net proceeds from the Rights Issue (Note 1) HK\$'000</b>	<b>Adjusted (immediately following the Rights Issue) Unaudited HK\$'000</b>
Consolidated net tangible assets of the Group	<u>5,311,717</u>	<u>113,000</u>	<u>5,424,717</u>
Consolidated net tangible assets value per Share (Note 2)	<u>HK\$1.13</u>		<u>HK\$0.92</u>

*Notes:*

1. The estimated net proceeds from the issue of the Rights Shares are based on the Subscription Price of HK\$0.10 per Rights Share and derived from deducting the related expenses.
2. The calculation of unaudited consolidated net tangible assets per Share as at 31st January, 2004 is based on 4,698,365,183 Shares in issue as at the Latest Practicable Date, while the unaudited adjusted consolidated net tangible assets per Share immediately following the Rights Issue is based on 5,872,956,478 Shares in issue assuming the completion of the Rights Issue with 1,174,591,295 Rights Shares issued.

**4B. COMFORT LETTER ON THE PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

15th Floor  
Hutchison House  
10 Harcourt Road  
Central, Hong Kong

23 June 2004

The Directors  
Lai Fung Holdings Limited

Dear Sirs

**Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Assets  
Lai Fung Holdings Limited (the “Company”) and its subsidiaries (the “Group”)**

We report on the “Pro Forma statement of unaudited adjusted consolidated net tangible assets” (the “Pro Forma NTA Statement”) included in the section “Financial and other information” of the prospectus dated 23 June 2004 (the “Prospectus”) in connection with the proposed rights issue in the proportion of one rights share for every four shares held (the “Rights Issue”), which has been prepared, for illustrative purposes only, to provide information about how the proposed Rights Issue might have affected the financial information presented.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the Pro Forma NTA Statement in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion on the Pro Forma NTA Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma NTA Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted net tangible assets with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma NTA Statement with the directors of the Company.

Because the above work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, we do not express any such assurance on the Pro Forma NTA Statement.

The Pro Forma NTA Statement has been prepared in accordance with the basis set out in the section “Financial and other information” of the Prospectus for illustrative purposes only and, because of its nature, it may not be indicative of the results of the Group and the financial position of the Group as at 31 January 2004 or at any future date.

### OPINION

In our opinion:

- (a) the Pro Forma NTA Statement has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma NTA Statement as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

## 5. WORKING CAPITAL

The Directors are of the opinion that, the Group has sufficient working capital for its present requirements (i.e. for at least 12 months from the date of this prospectus) after taking into account the internal resources of and banking and other facilities available to the Group and the estimated net proceeds from the Rights Issues.

## 6. INDEBTEDNESS

At the close of business on 30th April, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings including accrued interest, of approximately HK\$1,276,690,000 comprising secured bank borrowings of approximately HK\$1,257,098,000, and other unsecured borrowings of approximately HK\$19,592,000 from Mr. Lim Por Yen, a substantial shareholder of the Company.

The Group's secured bank borrowings are secured by legal charge on the Group's investment properties and properties under development with carrying values as at 31st January, 2004 of approximately HK\$2,893,000,000 and HK\$1,807,000,000, respectively. The Group's banking facilities are also secured by the assignment of all rental income and sales proceeds of the investment properties under the legal charge. As at 30th April, 2004, the balance of the charged bank accounts in which those rental income and sale proceeds were deposited amounted to approximately HK\$14,661,000.

As at 30th April, 2004, the Group had contingent liabilities in respect of the following:

- (1) Under a mortgage loan facility provided by a bank to the end-buyers of the office and apartment units of Hong Kong Plaza, Shanghai, for up to an aggregate sum of US\$20,000,000, as stipulated in the facility agreement with the bank, the Company provides guarantee up to 95% of the liabilities of a subsidiary of the Company for the due performance of its undertaking to buy back the relevant properties in case of default by the end-buyers. The Group's obligations have gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. In view of the constantly changing amount outstanding under the mortgage loans provided by the bank to the end-buyers and the estimated excessive costs involved to ascertain the same, the Directors consider that it is not practicable to collate the necessary information on a regular basis to quantify the exact outstanding amounts of the end-buyers due to the bank and thus determine the possible outflow of the Group;
- (2) Under mortgage loan facilities provided by banks to the end-buyers of Phase III of Eastern Place, Guangzhou, and Phase I of Regents Park, Shanghai, for up to an aggregate sum of approximate RMB100,000,000 and HK\$290,000,000, respectively, as stipulated in the respective facility agreements with the banks, the Company's subsidiaries provide guarantees to the banks to buy back the relevant properties in case of default by the end-buyers. These guarantees will terminate upon (i) the issuance of the property ownership certificate; (ii) the completion of mortgage registration and (iii) issuance of the property miscellaneous right certificates relating to the relevant property purchased. The Group's obligations have gradually relinquished along with the termination of the guarantees as mentioned and the settlement of the mortgage loans granted by the banks to the end-buyers. In view of the constantly changing amount outstanding under the mortgage loans provided by the banks to the end-buyers and the estimated excessive costs involved to ascertain the same, the Directors consider that it is not practicable to collate the necessary information on a regular basis to quantify the exact outstanding amounts of the end-buyers due to the banks and thus determine the possible outflow of the Group; and

- (3) Under mortgage loan facilities provided by banks to the end-buyers of Phase I and II of Eastern Place, Guangzhou, the Company or its subsidiaries provide guarantees to the banks to buy back the relevant properties in case of default by the end-buyers. The maximum possible outflow of the Group will not exceed HK\$484,000,000, being the estimated amount of mortgage loans granted by the banks to the end-buyers at the time when the relevant properties were sold. The Directors consider the estimation is reasonable, as it represents the Group's maximum possible outflow, which is based on the aggregate sales value of these properties and a mortgage loan ratio of up to 70% of the sales value which was an usual and common practice of providing mortgage loans at the time the properties were sold. The Group's obligations have gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. In view of the constantly changing amount outstanding under the mortgage loans provided by the banks to the end-buyers and the estimated excessive costs involved to ascertain the same, the Directors consider that it is not practicable to collate the necessary information on a regular basis to quantify the exact outstanding amounts of the end-buyers due to the banks and thus determine the possible outflow of the Group.

However, the directors, having taken into account the history of default cases and the currently prevailing property market condition, are of the opinion that the amounts recoverable from the re-selling of the properties under the default cases in the open market are likely to exceed the liabilities guaranteed mentioned in the foregoing paragraphs and accordingly it is expected that no material liabilities are likely to arise in the event of default by those end-buyers.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30th April, 2004.

The Directors have confirmed that there has been no material change in the indebtedness of the Group since 30th April, 2004.

## **7. MATERIAL CHANGES**

Save as disclosed in this prospectus, there has been no material change in the financial position or trading position of the Group since 31st July, 2003, the date to which the latest audited financial statements of the Group were made up.

## 1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. PARTICULARS OF DIRECTORS

### Executive directors

**Mr. Lim Por Yen**, Chairman, aged 89, is the founder of the Lai Sun Group and was appointed a Director on 4th September, 2002. He is also the chairman and managing director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), the chairman of Crocodile Garments Limited, the honorary chairman of Lai Sun Development Company Limited. Mr. Lim first became involved in the property and investment business in the mid-1950's and has over 60 years' experience in the garment business. He was admitted to the honorary university fellowship of the University of Hong Kong in December, 2003. Mr. Lim was also one of the Hong Kong Affairs Advisers to the People's Republic of China and is a founder member of The Better Hong Kong Foundation. Mr. Lim is the husband of Madam U Po Chu and the father of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming.

**Lam Kin Ming**, Deputy Chairman of the Company, aged 66, was appointed a Director on 8th September, 1997. He was also appointed an alternate director to Mr. Chiu Wai, Mr. Shiu Kai Wah, Mr. Siu Fai Wing, Mr. Lam Kin Ko, Stewart, Mr. Ho Wing Tim and Ms. Yu Po Kwan on 21st April, 2001. Mr. Lam is a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited and the deputy chairman of both Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. Mr. Lam has extensive experience in property development and investment business and the garment business, having been involved in the day-to-day management of the garment business since 1958. Mr. Lam is a son of Mr. Lim Por Yen and is the elder brother of Mr. Lam Kin Ngok, Peter.

**Mr. Lam Kin Hong, Matthew**, Chief Executive Officer, aged 36, was appointed a Director on 22nd December, 2001. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. He attained a Bachelor of Science degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development fields and corporate finance fields in Hong Kong and China. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming.

**Mr. Ho Wing Tim**, Deputy Chief Executive Officer, aged 45, was appointed a Director on 21st April, 2001. Mr. Ho joined the Lai Sun Group in November 1990 and is the financial controller of Lai Sun Garment (International) Limited, (a substantial shareholder of the Company). He has over 20 years' experience in the finance field.

**Mr. Lam Kin Ngok, Peter**, aged 46, was appointed a Director on 25th November 1993. Mr. Lam is also the chairman and president of Lai Sun Development Company Limited, a deputy chairman of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), a director of eSun Holdings Limited and Crocodile Garments Limited. Mr. Lam has extensive experience in

property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association and a council member of the Anglo Hong Kong Trust. Mr. Lam is a son of Mr. Lim Por Yen and is the younger brother of Mr. Lam Kin Ming.

**Mr. Lee Po On**, aged 48, was appointed a Director on 17th January, 2003. Mr. Lee is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and an executive director and the chief executive officer of eSun Holdings Limited. Mr. Lee joined the Lai Sun Group in November 1987 and held the position of chief executive officer of Asia Television Limited from 1992 to 1996. He is a Fellow of the Association of Chartered Certified Accountants with over 24 years' financial and commercial experience.

**Madam U Po Chu**, aged 79, was appointed a Director on 14th February, 2003. She is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments Limited. Madam U has over 55 years' experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and became involved in property development and investment in the late 1980's. In 2000, Madam U began investing in the catering industry in Hong Kong. She is Mr. Lim Por Yen's wife.

**Mr. Yew Yat Ming**, aged 37, was appointed a Director on 7th January, 2002. Mr. Yew joined the Lai Sun Group in 1991. He is an executive director of Kingscord Investment Limited, a subsidiary of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and is responsible for property development business. He graduated with a Master of Science degree in Construction Management in London and qualified as a professional associate of various institutions including The Royal Institution of Chartered Surveyors, The Chartered Institute of Arbitrators and is also a Registered Professional Surveyor in Hong Kong. He is a Council Member of Shanghai Real Estate Association. Mr. Yew has served with the Hong Kong Government and an international consultancy firm and has over 15 years' experience in property investment, land acquisitions, project planning and management in Hong Kong and the Mainland of China.

#### **Non-executive directors:**

**Mr. Lam Kin Ko, Stewart**, aged 56, was appointed a Director on 21st April, 2001. He has over 10 years' experience in garment manufacturing and China trade and had held the position of Consultant to the Chairman (China Affairs) of the Lai Sun Group since 1994.

**Mr. Chiu Wai**, aged 73, was appointed a Director on 21st April, 2001. Mr. Chiu is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments Limited. Mr. Chiu has over 45 years' experience in production management.

**Mr. Shiu Kai Wah**, aged 71, was appointed a Director on 21st April, 2001. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), a non-executive director of Lai Sun Development Company Limited, eSun Holdings Limited and Crocodile Garments Limited. Mr. Shiu has over 30 years' experience in the management of the garment business.

**Mr. Siu Fai Wing**, aged 57, was appointed a Director on 21st April, 2001. Mr. Siu is the president and chief executive officer of China Gallery Group Limited, managing director of Hong Kong Gallery Centre & Enterprise Co. Ltd., and chairman and managing director of Shantou SEZ Art & Culture Centre Development Co., Ltd. and also an invited professor of fine art in Faculty of Fine Arts of the Institute of Xian, People's Republic of China. He is a well known artist in Chinese paintings and has been actively involved in cultural and civic activities and has attained well-known reputation in cultural and painting in the Mainland and overseas and currently serves as a director of a number of organisations and societies such as Federation of Hong Kong Guangdong Community Organisations Ltd., Hong Kong Institute of Chinese Paintings, Calligraphy and Cultural Relics Limited (Chairman) and the Hong Kong Shantou Chamber of Commerce and a director of Chinese Overseas Association. Mr. Siu has good social connections in the Mainland and is also a senior consultant to the China affairs to Crocodile Garments Limited.

**Ms. Yu Po Kwan**, aged 53, was appointed a Director on 21st April, 2001. Ms. Yu is a senior manager of Lai Sun Garment (International) Limited (a substantial shareholder of the Company). She has over 25 years' extensive experience in the import and export of garments business and has been managing the garment export quota operation since 1980. Ms. Yu was also elected a director of the Federation of Hong Kong Garment Manufacturers in 2002.

#### **Independent non-executive directors**

**Mr. Wong Yee Sui, Andrew**, aged 54, was appointed an independent non-executive director of the Company on 1st December, 1999. Mr. Wong graduated from the University of Adelaide, South Australia in 1971 and obtained a Master of Business Administration degree at Queen's University, Canada in 1974. He became a Chartered Accountant in 1976 in Quebec, Canada, and a fellow member of Hong Kong Society of Accountants in 1988. Mr. Wong has extensive experience in the auditing and finance fields in Hong Kong and overseas. He is a partner of W. M. Sum & Co., a firm of Certified Public Accountants in Hong Kong.

**Mr. Lam Bing Kwan**, aged 54, was appointed an independent non-executive director of the Company on 30th July, 2001. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has substantial experience in property development and investment in the Mainland, 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 director of Sino-i Technology Limited and South Sea Holding Company Limited, both listed on the Main Board of the Stock Exchange.

### **3. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION**

<b>Underwriter</b>	VC Capital Limited 38th Floor, The Centrium 60 Wyndham Street Hong Kong
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<b>Legal Advisers to the Company</b>	<i>On Hong Kong Law</i> Woo, Kwan, Lee & Lo 27th Floor, Jardine House 1 Connaught Place Central, Hong Kong
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	<i>On Cayman Islands Law</i> Maples and Calder Asia 1504 One International Finance Centre 1 Harbour View Street Hong Kong
<b>Auditors</b>	Ernst & Young Certified Public Accountants 15th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong
<b>Registered office</b>	Ugland House South Church Street P. O. Box 309 George Town, Grand Cayman Cayman Islands British West Indies
<b>Head office and principal place of business</b>	11th Floor, Lai Sun Commercial Centre 680 Cheung Sha Wan Road Kowloon, Hong Kong
<b>Authorized representative</b>	Mr. Lam Kin Ming Mr. Ho Wing Tim
<b>Company secretary</b>	Mr. Yeung Kam Hoi <i>ACIS, ACS</i> 11th Floor, Lai Sun Commercial Centre 680 Cheung Sha Wan Road Kowloon, Hong Kong
<b>Hong Kong branch share registrar</b>	Tengis Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai, Hong Kong
<b>Principal banker</b>	The Hongkong and Shanghai Banking Corporation Limited No. 1 Queen's Road Central Hong Kong

#### 4. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Record Date and following completion of the Rights Issue (assuming the Rights Issue becoming unconditional) will be as follows:

##### (i) Authorized capital

	<i>HK\$</i>
7,000,000,000 Shares of HK\$0.10 each as at the Record Date	700,000,000

##### (ii) Shares issued and to be issued as fully-paid

<i>Shares</i>		<i>HK\$</i>
4,698,365,183 Shares in issue as at the Record Date		469,836,518.3
<u>1,174,591,295</u> Rights Shares		<u>117,459,129.5</u>
<u>5,872,956,478</u> Shares in issue after the Rights Issue ( <i>Notes</i> )		<u>587,295,647.8</u>

*Note:* Assuming the Rights Issue becomes unconditional and the Rights Shares are fully subscribed and no further Shares are issued by the Company between the Record Date and date of completion of the Rights Issue.

#### 5. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following Shares which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

##### The Company

Name of Directors	Long positions in the Shares				Capacity	Total	Percentage
	Personal Interests	Family Interests	Corporate Interests				
Lim Por Yen	92,124,800	NIL	2,120,550,431		Beneficial owner	2,212,675,231	47.09%
			<i>(Note 1)</i>				
U Po Chu	Nil	2,212,675,231		Nil	Beneficial owner	2,212,675,231	47.09%
		<i>(Note 2)</i>					

*Note:*

- These interests in the Company represented the shares beneficially owned by Lai Sun Garment (International) Limited ("LSG") (1,455,365,090 shares) and Silver Glory Securities Ltd. ("SGS") (665,185,341 shares), a wholly-owned subsidiary of LSG. Mr. Lim Por Yen was deemed to be interested in the 2,120,550,431 shares in the Company held by LSG and SGS since Mr. Lim Por Yen (together with his associates) held an interest of about 33.99% in the issued share capital of LSG.

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG.

2. Madam U Po Chu was deemed to be interested in 2,212,675,231 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, as at the Latest Practicable Date none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short position in the shares, underlying shares of equity derivatives and in 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.

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

None of the Directors had any interest, direct or indirect, in any assets which have been since 31st July, 2003, being the date to which the latest audited financial statements of the Group were prepared, acquired, disposed of, or leased to, by any member of the Group or proposed to be acquired, disposed of, or leased to, by any member of the Group.

## 6. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following persons, some of whom are Directors, had an interest in the following Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Long Positions in Shares		Percentage
		Nature (Note 1)	Number of Shares	
Lai Sun Garment (International) Limited (“LSG”)	Beneficial owner	Corporate	2,120,550,431	45.13% (Note 2)
Lim Por Yen	Beneficial owner	Personal and Corporate	2,212,675,231	47.09% (Note 3)
U Po Chu	Beneficial owner	Family	2,212,675,231	47.09% (Note 4)
Lai Yuen Fong	Beneficial owner	Family	2,212,675,231	47.09% (Note 5)
Silver Glory Securities Limited (“SGS”)	Beneficial owner	Corporate	665,185,341	14.16% (Note 2)

Note:

1. Personal, family and corporate denote personal interest, family interest and corporate interest respectively.
2. These interests in the Company represented the shares beneficially owned by LSG (1,455,365,090 shares) and SGS (665,185,341 shares), a wholly-owned subsidiary of LSG.

3. These interests in the Company represented the shares beneficially owned by Mr. Lim Por Yen (92,124,800 shares) and those beneficially owned by LSG (1,455,365,090 shares) and SGS (665,185,341 shares), a wholly-owned subsidiary of LSG. Mr. Lim Por Yen and his spouses held an interest of approximately 33.99% in the issued share capital of LSG and were deemed to be interested in the 2,120,550,431 shares in the Company held by LSG and SGS. Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu and Madam Lai Yuen Fong were directors of LSG and held in aggregate an interest of about 42% in the issued share capital of LSG.
4. Madam U Po Chu was deemed to be interested in 2,212,675,231 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
5. Madam Lai Yuen Fong was deemed to be interested in 2,212,675,231 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

Save as disclosed above, as at the Latest Practicable Date, there was no person known to the Directors who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of the business carried on by the Group) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are, or may be, material:

- (a) an agreement for the sale and purchase of shares in and shareholder's loan to Farron Assets Limited ("FA") entered into between Goldthrope Limited ("GL"), a wholly-owned subsidiary of the Company and Goldmark Pacific Limited ("GP"), an independent third party, on 27th February, 2003 pursuant to which GL agreed to sell and GP agreed to purchase 22.5% of the issued share capital of FA and 22.5% of the shareholder's loan to FA for an aggregate consideration of HK\$111,000,000;
- (b) an underwriting agreement dated 7th March, 2003 relating to a rights issue of not less than 767,706,730 shares of HK\$0.10 each at HK\$0.10 per share entered into between the Company and DBS Asia Capital Limited; and
- (c) the Underwriting Agreement.

## 8. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (which are not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

## 9. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions contained in this prospectus:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified Public Accountants

Ernst & Young has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Ernst & Young did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 10. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 80 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the Chairman of the meeting; or
- (b) at least three members present in person or by proxy and entitled to vote;
- (c) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

## 11. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or other proceedings of material importance and, so far as the Directors are aware, no litigation or claims of material importance were pending or threatened by or against any member of the Group.

## 12. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 16th April, 2004, the approval date of an Interim Report of the Group as at 31st January, 2004 issued to the Shareholders.

## 13. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

**14. EXPENSES**

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$4,000,000 and are payable by the Company.

**15. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of each of the Prospectus Documents, having attached thereto the written consent referred to under the heading “Expert and Consent” in this appendix, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance.

**16. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company in Hong Kong at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong up to 4:00 p.m. on Wednesday, 7th July, 2004:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the section headed “Material Contracts” in this Appendix;
- (iii) the audited financial statements of the Group for each of the 2 years ended 31st July, 2003;
- (iv) the report by Ernst & Young on the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group, the text of which is set out in Appendix I to this prospectus; and
- (v) the written consent of Ernst & Young referred to in the paragraph headed “Expert and Consent” in this appendix.