



LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

Annual Report 2002-2003

	Contents
2	Corporate Profile
3	Corporate Information
4	Chairman's Statement
7	Management Discussion and Analysis
18	Report of the Directors
32	Report of the Auditors
33	Consolidated Profit and Loss Account
34	Consolidated Balance Sheet
36	Consolidated Statement of Changes in Equity
38	Consolidated Cash Flow Statement
40	Company Balance Sheet
41	Notes to Financial Statements
78	Notice of Annual General Meeting

**Lai Fung Holdings Limited**  
11/F Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong  
Tel (852) 2741 0391 Fax (852) 2741 9763  
Internet <http://www.laisun.com/laifung>  
E-mail [info@laifung.com](mailto:info@laifung.com)

*Stock code on Hong Kong Stock Exchange: 1125*

# Corporate Profile

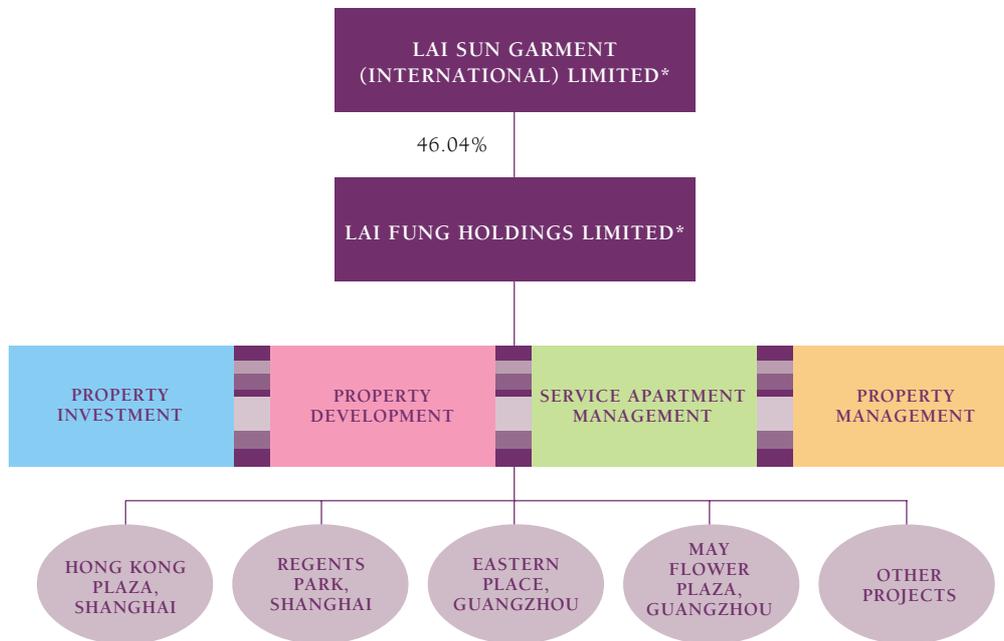
Lai Fung Holdings Limited (“Lai Fung”) is a member of the Lai Sun Group and was listed on the Stock Exchange of Hong Kong Limited in November 1997. Lai Fung is the property development and investment arm of the Lai Sun Group in Mainland of China (“Mainland”).

Lai Fung’s core businesses include the investment and development of service apartment, residential, office and commercial properties in prime locations in major gateway cities in Mainland with excellent accessibility and infrastructure.

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

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

## Organisation Chart



\* Listed on Main Board of Hong Kong Stock Exchange

## Corporate Information

### Place of Incorporation

Cayman Islands

### Directors

Lim Por Yen (Chairman)

Lam Kin Ming \*

(Deputy Chairman)

Lam Kin Hong, Matthew

(Chief Executive Officer)

Ho Wing Tim °

(Deputy Chief Executive Officer)

Lam Kin Ngok, Peter

Lee Po On

U Po Chu

Lam Kin Ko, Stewart °

Yew Yat Ming

Chiu Wai °

Shiu Kai Wah °

Siu Fai Wing °

Yu Po Kwan °

Wong Yee Sui, Andrew

Lam Bing Kwan

\* *also alternate director to* °

### Registered Office

Ugland House

South Church Street

P.O.Box 309, George Town

Grand Cayman, Cayman Islands

British West Indies

### Secretary and Principal Place of Business

in Hong Kong

Yeung Kam Hoi

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

### Auditors

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road, Central

Hong Kong

### Solicitors

*As to Hong Kong law:*

Richards Butler

20th Floor, Alexandra House

16-20 Chater Road, Central

Hong Kong

*As to Cayman Islands law:*

Maples and Calder Asia

1504 One International Finance Centre

1 Harbour View Street, Central

Hong Kong

### Principal Bankers

The Hongkong and Shanghai

Banking Corporation Limited

China Construction Bank

Shanghai Changning sub-branch

China Construction Bank

Guangzhou Baiyun sub-branch

### Share Registrars in Hong Kong

Tengis Limited

Ground Floor

Bank of East Asia

Harbour View Centre

56 Gloucester Road, Wanchai

Hong Kong

## Chairman's Statement



Mr. Lim Por Yen, Chairman

*“On behalf of the Board of Directors, I am pleased to present the 2002-03 annual report to the shareholders.”*

### RESULTS

Realising a marked turnaround, Lai Fung Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recorded a consolidated net profit attributable to shareholders of HK\$56,995,000 for the year ended 31st July, 2003, as compared with a net loss of HK\$93,976,000 for the previous year.

### DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the financial year under review.

### BUSINESS REVIEW

For the year under review, the Group registered a turnover of HK\$119,338,000 (2002: HK\$142,510,000) and a profit from operating activities of HK\$111,899,000 (2002: HK\$76,204,000), representing a decrease of approximately 16% and an increase of approximately 47% respectively when compared with the previous year.

## Chairman's Statement

Demand for quality commercial and residential property in the Mainland of China ("Mainland") has paralleled the country's continued economic expansion, particularly in the major cities of Shanghai and Guangzhou where the Group's properties are concentrated. As a result, the Group enjoyed improving occupancy and rental rates at its properties, despite the effects of Severe Acute Respiratory Syndrome ("SARS"), and also benefited from the availability of about 100 additional service apartment units during the period under review, all contributing to an increase in gross profit of 51% at HK\$93,777,000, as compared with HK\$61,930,000 last year.

On 27th February, 2003, the Group entered into an agreement to sell to an independent third party 22.5% of the equity interest in and 22.5% of the shareholder's loan advanced by the Group to a subsidiary company, for an aggregate consideration of HK\$111,000,000. The gain on the disposal of the 22.5% interest in the project is approximately HK\$27,095,000.

The effects of underperforming associates and jointly-controlled entities on the Group's overall performance diminished substantially during the year, as compared with the previous year. The impairment loss in amounts due from associates decreased to HK\$10,249,000 (2002: HK\$18,916,000) while the loss on the disposal of a jointly-controlled entity amounted to HK\$3,772,000 (2002: Nil). Having taken these and other positive steps to mitigate the situation, the Group expects its overall performance to improve in the coming year.

Through aggressive debt restructure and an increase in equity base, the Group successfully reduced its finance cost by 33% to HK\$38,728,000 (2002: 57,960,000). The Group is committed to redoubling efforts to enhance its financial position for the coming year.

### PROSPECTS

The Mainland's steady integration into the World Trade Organization (WTO) continues to draw an influx of foreign corporations seeking to establish or strengthen their presence in the Mainland. With the signing of the Closer Economic Partnership Arrangement (CEPA), Hong Kong corporations will undoubtedly gravitate towards the Mainland market in ever-greater numbers, further stimulating the already surging demand for quality commercial and residential properties.

## Chairman's Statement

Considering this favourable outlook, the Group projects satisfactory growth for the coming year. The Group expects its flagship Shanghai property, Hong Kong Plaza, to continue to contribute stable rental income. In addition, a new Grade-A commercial property in Guangzhou, May Flower Plaza, will open in early 2004, fortifying the Group's investment portfolio and serving as another regular stream of revenue. The scheduled pre-sale of completed developments, including Regents Park in Shanghai and Phase III of Eastern Place in Guangzhou, is also expected to boost turnover and profitability. With other completed projects scheduled to come on stream amid a favourable leasing market, the Group is confident of achieving solid growth and higher earnings in coming years.

Robust economic growth is expected to continue in the Mainland, especially in the Yangtze and Pearl River deltas, home to the country's fastest growing cities. 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 upon future opportunities to fuel growth. Moving forward, 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.

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

Lim Por Yen  
*Chairman*

Hong Kong  
7th November, 2003

# Management Discussion and Analysis

**China's** economic development has entered a new era. Its gradual integration into the WTO provides robust trade and investment flows and fosters promising business growth in the coming years. We translate this into a surging demand for quality commercial and residential properties, especially in major cities such as Shanghai and Guangzhou.



Beijing

**Yangtze River Delta**

Shanghai

**Shanghai**, the largest metropolis in China, has maintained strong and perpetual growth in its GDP over the last decade. The 2010 World Expo in Shanghai is expected to further boost the city to unprecedented growth.

**Pearl River Delta**

Guangzhou

Hong Kong

**Guangzhou**, one of the fastest growing cities in China, has seen remarkable growth in recent years. Its desirable location in the Pearl River Delta and close proximity to Hong Kong ensure the city with enormous business interaction and hence growth potential.

# Management Discussion and Analysis

## REVIEW OF PROJECTS

### *Hong Kong Plaza, Shanghai*



Rising above the Huangpi South Road subway station at one of Shanghai's prime downtown addresses on famous Huaihaizhong Road, the Group's flagship project, Hong Kong Plaza, has become a prestigious landmark in the heart of the city. Offering a gross floor area of approximately 140,000 sq.m., the twin-building complex contains offices, shopping arcades and service apartments with extensive clubhouse facilities. Since its opening in late 1997, Hong Kong Plaza has attracted a diverse portfolio of prominent shopping arcade tenants including HSBC, Bank of China, Physical Fitness Centre, KFC, Zen and Cyber Mart. It is also a choice location for many esteemed corporate tenants who lease office space and service apartments. Despite the outbreak of SARS in the first half of 2003 which caused considerable shortfall in rental income from service apartments when compared with the original budget, Hong Kong Plaza continued to contribute stable rental income growth to the Group, recording an increase of HK\$13,180,000 in rental income for the Group.

8



Office Tower Lobby



Shopping Arcade

# Management Discussion and Analysis

# Shanghai



North Tower — Service Apartment  
South Tower — Office Tower  
Huaihaizhong Road, Luwan District, Shanghai



Location Map



Reception



Service Apartment — Bedroom



Service Apartment — Living and Dining Rooms

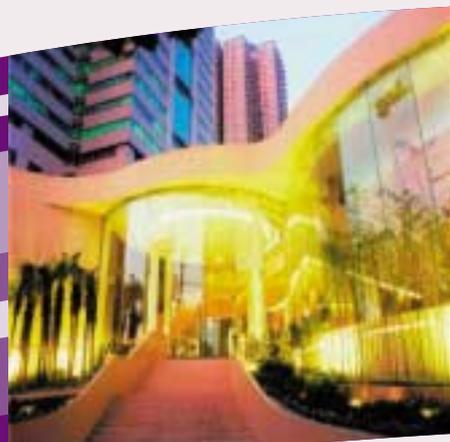
# Management Discussion and Analysis

## *Regents Park, Shanghai*



Foundation work for another of the Group's key Shanghai projects, Regents Park (previously known as Hai Xin Garden), was completed during the year under review. The project is located in Shanghai's prestigious Changning District near Zhongshan Park subway station on a 36,000 sq.m. site. Upon completion, the Regents Park community will comprise 13 residential blocks with approximately 168,600 sq.m. of gross floor area, approximately 14,800 sq.m. of commercial area, a fully appointed clubhouse and other facilities. Phase I of the project is scheduled for completion in early 2005.

Designed to perfection with international standards by a team of renowned professionals, Regents Park has everything that the most exquisite residence has to offer including meticulous planning, optimum architecture, landscaped courtyards of 15,000 sq.m. by an award-winning designer, exclusive roof-top gardens for deluxe duplex apartments, a lavish and generous clubhouse, a state-of-the-art cinema-and-commercial complex and many other comprehensive facilities. Reputed to be the oasis of the concrete jungle, Regents Park ensures optimum functionality and practicality and was voted the most popular property project in Shanghai in 2003 by the media.



Sales Office



Show Flat — Living Room



Show Flat — Dining Room

## Management Discussion and Analysis

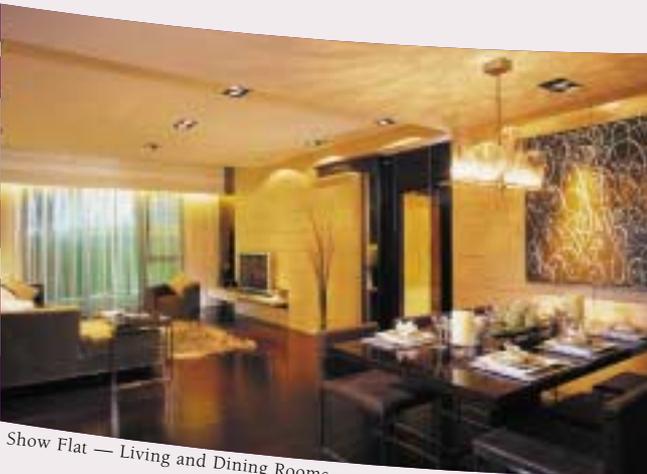
# Shanghai



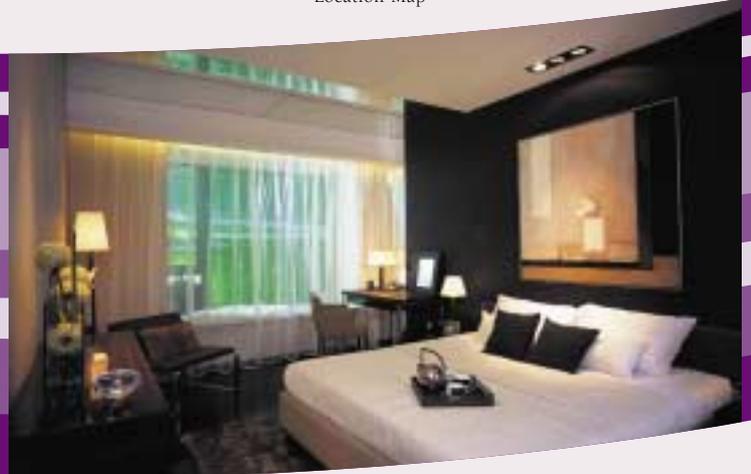
Huichuan Road, Changning District, Shanghai



Location Map



Show Flat — Living and Dining Rooms



Show Flat — Bedroom

# Management Discussion and Analysis

## *Eastern Place, Guangzhou*



Eastern Place, located on Dongfeng East Road in Guangzhou's desirable Dongshan District, has earned a distinctive reputation as one of the most sought-after residential addresses in Guangzhou. With a total site area of approximately 60,000 sq.m., the entire project includes eight residential blocks and a commercial/office complex to be developed in several phases. Now in place are Phase I and II, which comprise four residential buildings, and the well-appointed residents' clubhouse, Eastern Club (previously known as Dong Feng Hui). Phase III, which includes two additional residential blocks adding approximately 42,000 sq.m. of gross floor area, is scheduled for completion and pre-sale towards the end of 2003. Other deluxe facilities, including a 50-metre swimming pool, tennis courts and golf amenities, have also been completed, making Eastern Place a fully self-sufficient community, not to mention an even more highly esteemed residence. Resident amenities are among the most luxurious and comprehensive available at any residential property in downtown Guangzhou.



Show Flat — Bedroom



Show Flat — Living Room



Show Flat — Dining Room

## Management Discussion and Analysis

# Guangzhou



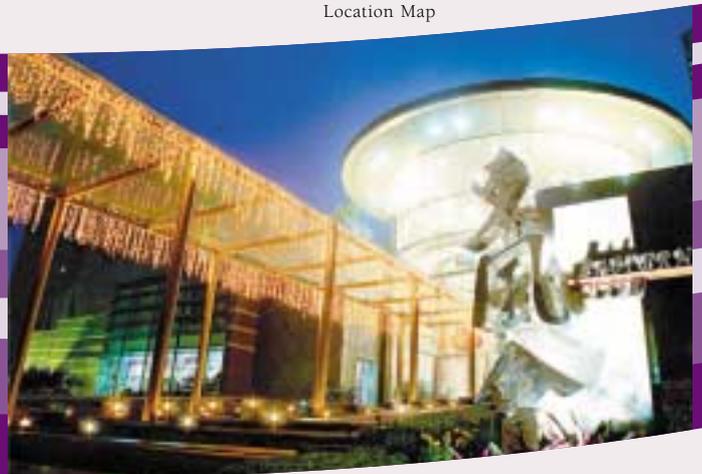
Dongfeng East Road, Dongshan District, Guangzhou



Location Map



50-metre Standard Swimming Pool



Club House — Eastern Club

## Management Discussion and Analysis

# Guangzhou

### May Flower Plaza, Guangzhou



Substantial structural work was completed during the year for May Flower Plaza (previously known as Wuyuehua Shangye Guangchang) in Guangzhou. The property, which enjoys a prime strategic location directly above the Gongyuanqian subway station on Zhongshanwu Road, is now undergoing decoration. May Flower Plaza will provide commercial tenants with exceptional convenience and access to a well-developed transportation network, directly linked as it is to two exits of the subway station and situated in close proximity to the bustling Beijing Road Buxingjie shopping street, a popular and mature shopping district. Its superior

location is already drawing enormous traffic flow to the Plaza. The 13-storey complex will soon offer approximately 35,000 sq.m. of office and commercial floor area, as well as a four-storey basement of approximately 14,000 sq.m. earmarked for commercial and car park usage. Targeted to house a comprehensive mix of retail tenants, exhibition centres, restaurants and a cinema with state-of-the-art facilities, May Flower Plaza is scheduled to open in the beginning of 2004.



Zhongshanwu Road, Yuexiu District, Guangzhou



Location Map

# Management Discussion and Analysis

## *Zhongshan*

On 20th August, 2003, the Group through its newly formed wholly-owned subsidiary, Zhongshan City Bao Li Properties Development Limited (“Zhongshan Bao Li”), entered into an agreement with Zhongshan Li Shan Properties Development Limited (“Zhongshan Li Shan”), a jointly-controlled entity of the Group, and a third party in the Mainland, pursuant to which the Group gave up the entitlement of its investment in 50% of Zhongshan Li Shan and in return was compensated by a new piece of land of 55,000 sq.m. in Zhongshan, the Land Use Rights Certificates of which were issued to Zhongshan Bao Li by the People’s Government of Zhongshan on 24th October, 2003. Since the development of the land held by Zhongshan Li Shan was not commercially feasible and the remaining term of this joint-venture was short, full provision on the impairment of the Group’s interest in 50% in Zhongshan Li Shan was already made in the Group’s financial statements since the financial year ended 31st July, 2002. The detailed development plan of this new piece of land owned by Zhongshan Bao Li has yet to be determined by the Group.

## CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

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

On 11th March, 2003, the Company announced a rights issue of 767,706,730 rights shares of HK\$0.10 each at HK\$0.10 per rights share in the proportion of one rights share for every five existing shares held on 31st March, 2003 (the “Rights Issue”). A total of 767,706,730 shares were allotted and issued, representing approximately 20% and 16.67% of the original and enlarged issued share capital of the Company, respectively. In view of the recent economic climate, the Directors decided upon a prudent course to finance long-term growth through long-term funding, preferably in the form of equity. The Directors deemed that it was in the interest of the Company to enlarge its capital base by way of the Rights Issue, which would allow all shareholders the opportunity to participate in the growth of the Group.

## Management Discussion and Analysis

As at 31st July, 2003, the Group had a gross borrowing (inclusive of the loan of HK\$16,170,000 (2002: HK\$86,886,000) loaned by Mr. Lim Por Yen) amounting to HK\$1,138 million (2002: HK\$1,054 million), representing an increase of HK\$84 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK\$5,602 million (2002: HK\$5,523 million). The resultant debt to equity ratio was 0.20 (2002: 0.19).

During the year, the Group obtained an additional unsecured loan of RMB38,934,000 from Mr. Lim Por Yen, a substantial shareholder in the Group. The Group has repaid HK\$106,000,000 to Mr. Lim Por Yen during the year under review. The aggregate outstanding balance of the loans from Mr. Lim Por Yen as at 31st July, 2003 was HK\$16,170,000.

Approximately 99% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 1% were interest-free. As at 31st July, 2003, approximately 38% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 62% were denominated in United States dollars ("USD").

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

The maturity profile of the Group's bank borrowings as at 31st July, 2003 was spread over a period of five years, with approximately 4% repayable within one year and 96% repayable between two to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK\$2,893 million and properties under development with carrying value amounting to approximately HK\$1,304 million, and bank balances amounting to approximately HK\$11.5 million at the balance sheet date.

# Management Discussion and Analysis

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

## CONTINGENT LIABILITIES

According to a practice common among banks in the Mainland when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Company is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, and Phase I and Phase II of Eastern Place. As the PRC property market is currently stable, the management does not expect such contingent liabilities to crystallise in the near term.

## EMPLOYEES AND REMUNERATION POLICY

As the employer of approximately 400 staff, the Group recognises the importance that maintaining strong human resources plays in its continued success. Under the Group's existing policy, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

## SHARE OPTION SCHEME

In order to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible employees (including executive and non-executive directors), a Share Option Scheme was approved and adopted by the shareholders at an Extraordinary General Meeting held on 21st August, 2003.

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31st July, 2003.

## PRINCIPAL ACTIVITIES

The Company's principal activity is investment holding.

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

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31st July, 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 77.

The directors do not recommend the payment of a final dividend in respect of the year (2002: Nil). No interim dividend has been declared or paid by the Company for the year (2002: Nil).

## DIRECTORS

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

### Executive directors:

Lim Por Yen ( <i>Chairman</i> )	(appointed on 4th September, 2002)
Lam Kin Ming ( <i>Deputy Chairman</i> ) *	
Lam Kin Hong, Matthew ( <i>Chief Executive Officer</i> )	
Ho Wing Tim ( <i>Deputy Chief Executive Officer</i> ) °	
Lam Kin Ngok, Peter	
Lee Po On	(appointed on 17th January, 2003)
U Po Chu	(appointed on 14th February, 2003)
Yew Yat Ming	

### Non-executive directors:

Lam Kin Ko, Stewart °	
Chiu Wai °	
Shiu Kai Wah °	
Siu Fai Wing °	
Yu Po Kwan °	
Chan Lap Wai	(resigned on 4th September, 2002)
Andrew Gerard Purcell	(resigned on 21st October, 2002)
Wong Yee Sui, Andrew **	
Lam Bing Kwan **	

\*\* *Independent non-executive directors*

\* *Also alternate director to°*

# Report of the Directors

## DIRECTORS (continued)

In accordance with Article 99 of the Company's Articles of Association, Mr. Lee Po On and Madam U Po Chu retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 116 of the Company's Articles of Association, Mr. Chiu Wai, Mr. Shiu Kai Wah, Mr. Siu Fai Wing and Mr. Lam Kin Ko, Stewart retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

## CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in notes 5(ii) and 27 to the financial statements, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Madam U Po Chu, Mr. Ho Wing Tim and Mr. Lam Bing Kwan held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong and the Mainland of China.

As the board of directors of the Company (the "Board") is independent from the boards of directors of the aforesaid companies and none of the above directors of the Company can control the Board, the Group is capable of carrying on its businesses independent of, and at arm's length from, the businesses of such companies.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive directors:

Mr. Lim Por Yen, Chairman, aged 88, is the founder of the Lai Sun Group and was appointed a director of the Company 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 and an executive director of eSun Holdings 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 is an honorary citizen of the city of Guangzhou, the city of Swatow, the city of Xiamen and the city of Zhong Shan in the People's Republic of China. 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. Lam Kin Ming, Deputy Chairman, aged 66, was appointed a director of the Company 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 businesses 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.

20

Mr. Lam Kin Hong, Matthew, Chief Executive Officer, aged 35, was appointed a director of the Company 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 the Mainland of 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 of the Company on 21st April, 2001. Mr. Ho joined the Lai Sun Group in November 1990. He is also the financial controller of Lai Sun Garment (International) Limited (a substantial shareholder of the Company). He has over 20 years' experience in the finance fields.

Mr. Lam Kin Ngok, Peter, aged 46, was appointed a director of the Company 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), an executive 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.

## Report of the Directors

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

#### Executive directors: (continued)

Mr. Lee Po On, aged 48, was appointed a director of the Company 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 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 78, was appointed a director of the Company on 14th February, 2003. She is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Crocodile Garments Limited, Lai Sun Development Company Limited and eSun Holdings Limited. Madam U has over 55 years' experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and became involved in property development and investment in the late 1980's. In 2000, Madam U began investing in the catering industry in Hong Kong. Madam U is Mr. Lim Por Yen's wife.

Mr. Yew Yat Ming, aged 37, was appointed a director of the Company 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 the 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 and Xiamen Real Estate Associations. 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 55, was appointed a director of the Company on 21st April, 2001. He has over 10 years' experiences 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. Lam is also an executive director of Crocodile Garments Limited.

Mr. Chiu Wai, aged 72, was appointed a director of the Company 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 of the Company 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.

# Report of the Directors

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

### Non-executive directors: (continued)

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., 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 of China 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 & Cultural Relics Limited (chairman), the Hong Kong Shantou Chamber of Commerce and a director of the Chinese Overseas Association. Mr. Siu has good social connections in the Mainland of China and is also a senior consultant to the China affairs to Crocodile Garments Limited.

Ms. Yu Po Kwan, aged 53, was appointed a director of the Company 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 of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently a director of Sino-i Technology Limited and South Sea Holding Company Limited, both listed on the Main Board of The Stock Exchange of Hong Kong Limited.

### Senior management:

Mr. Woo King Hang, aged 42, was appointed senior vice president of the Company in May 2001. Mr. Woo holds a Bachelor of Science degree in Accounting (University of the State of New York), a Bachelor of Laws degree (Peking University) and a Master of Laws degree (City University of Hong Kong). He is also a fellow member of the Association of Chartered Certified Accountants, Hong Kong Society of Accountants, and the Taxation Institute of Hong Kong. He has over 15 years' experience in finance and administration, and has served as group chief accountant, executive director and chief financial officer of different listed companies, and in other positions with the Hong Kong Government, a certified public accountants firm, a major retail company and a major electronic media company.

# Report of the Directors

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

### Senior management: (continued)

Mr. So Hiu Hung, aged 53, is an assistant vice president of the Company and has over 20 years' experience in project development and management in the Mainland of China. Prior to joining the Lai Sun Group in May 1995, he was employed by Great Nortic group and Sun Hung Kai Development (China) Limited as assistant project manager. Mr. So is responsible for the day-to-day management of the Group's projects in the Mainland of China.

Mr. Tong Chit, aged 58, is a vice president of the Company. He has over 20 years' extensive experience in project development and administration in the Mainland of China. Before joining the Lai Sun Group in March 1993, he was employed by Seapower group as manager of China trade and real estate business department. Mr. Tong is responsible for the administration of the Group's Guangzhou office in the Mainland of China.

Mr. Wong Man Kong, aged 40, is a director of Shanghai Li Xing Real Estate Development Co., Ltd. ("Shanghai Li Xing"). He had worked for The Peninsula, Hong Kong, The Ritz-Carlton Hong Kong, Beijing Palace Hotel and Guangzhou China Hotel for about 20 years and had acquired experience in the management of 5-star hotels and service apartments. Mr. Wong subsequently took up employment as the general manager of the property management arm of a group based in Hong Kong. Mr. Wong joined the Group in March 2000 and is currently responsible for all operational matters relating to the management, marketing, sales and leasing of Shanghai Li Xing.

## DIRECTORS' INTERESTS

As at 31st July, 2003, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; 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 Director	Personal Interests	Long positions in the shares		Capacity	Total	Percentage
		Family Interests	Corporate Interests			
Lim Por Yen	Nil	Nil	2,120,550,431 (Note 1)	Beneficial owner	2,120,550,431	46.04%
U Po Chu	Nil	2,120,550,431 (Note 2)	Nil	Beneficial owner	2,120,550,431	46.04%

# Report of the Directors

## DIRECTORS' INTERESTS (continued)

### Notes:

1. 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 Limited ("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 2,120,550,431 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.

### (i) Long positions in underlying shares of equity derivatives

None of the directors nor the chief executive of the Company were interested or deemed to be interested in long positions in underlying shares of equity derivatives of the Company.

### (ii) Short positions in underlying shares of equity derivatives

None of the directors nor the chief executive of the Company were interested or deemed to be interested in short positions in underlying shares of equity derivatives of the Company.

Save as disclosed above, as at 31st July, 2003, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; 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.

## ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

A share option scheme for eligible employees of the Group was adopted by the Company on 21st August, 2003.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2003, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Long positions in the shares		Percentage
		Nature (Note 1)	Number of Shares	
Lai Sun Garment (International) Limited ("LSG")	Beneficial owner	Corporate	2,120,550,431	46.04% (Note 2)
Lim Por Yen	Beneficial owner	Corporate	2,120,550,431	46.04% (Note 2)
U Po Chu	Beneficial owner	Family	2,120,550,431	46.04% (Note 3)
Lai Yuen Fong	Beneficial owner	Family	2,120,550,431	46.04% (Note 4)
Silver Glory Securities Limited ("SGS")	Beneficial owner	Corporate	665,185,341	14.44%
Credit Suisse First Boston (Hong Kong) Limited	Beneficial owner	Corporate	442,196,119	9.60% (Note 5)

Notes:

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. 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.
3. Madam U Po Chu was deemed to be interested in 2,120,550,431 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
4. Madam Lai Yuen Fong was deemed to be interested in 2,120,550,431 shares by virtue of the interest in such shares of her spouse, Mr. Lim Por Yen.
5. Persons falling into the category of "Other Persons" in Practice Note 5 of the Listing Rules.

## Report of the Directors

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

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares and underlying shares of the Company as at 31st July, 2003.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31st July, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

### DETAILS OF PROPERTIES

Details of the properties under development of the Group are as follows:

Location	Group interest	Stage of construction	Expected completion date	Expected use	Gross floor area
Eastern Place, 787 Dong Feng East Road, Dongshan District, Guangzhou, Guangdong Province, PRC	100%	Phase III Construction work in progress	Phase III Early 2004	Commercial/ residential/ office	Total site area (Phase III and remaining phases): 44,252 sq.m. Total gross floor area (Phase III and remaining phases): approximately 222,000 sq.m.
May Flower Plaza (previously known as Wuyuehua Shangye Guangchang), 32-80 Zhongshanwu Road, 5-15 Guang Da Road and 3-7 Guangzhou Yixiang, Yue Xiu District, Guangzhou, Guangdong Province, PRC	77.5%	Construction work in progress	Early 2004	Commercial/ office	Total site area: 5,782 sq.m. Total gross floor area: approximately 35,000 sq.m.

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

Location	Group interest	Stage of construction	Expected completion date	Expected use	Gross floor area
Guangli Building, Chang Di Main Road, Yue Xiu District, Guangzhou, Guangdong Province, PRC	100%	Resettlement of original inhabitants in progress	2005	Commercial/ office	Total site area: 8,427 sq.m. Total gross floor area: approximately 104,000 sq.m.
Jingshazhou, Heng Sha, Guangzhou, Guangdong Province, PRC	100%	Planning stage	2010	Commercial/ residential	Total site area: 297,186 sq.m. Total gross floor area: approximately 356,000 sq.m.
Regents Park (previously known as Hai Xin Garden), 88 Huichuan Road, Changning District, Shanghai, PRC	95%	Phase I Construction work in progress	Phase I 2005	Commercial/ residential	Total site area (Phases I and II): 36,149 sq.m. Total gross floor area (Phases I and II): approximately 183,400 sq.m.

Details of the investment properties of the Group are as follows:

Location	Group interest	Tenure	Use
Commercial podium and certain office and service apartment units of Hong Kong Plaza, 282 & 283 Huaihaizhong Road, Luwan District, Shanghai, PRC	95%	The property is held for a term of 50 years, commencing on 16th September 1992 and expiring on 15th September, 2042.	Office/ shopping arcades/ service apartments
181 units in North Tower of Hong Kong Plaza 282 & 283 Huaihaizhong Road, Luwan District, Shanghai, PRC	100%	The property is held for a term of 50 years, commencing on 16th September 1992 and expiring on 15th September, 2042.	Service apartments

# Report of the Directors

## DETAILS OF PROPERTIES (continued)

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

Location	Group interest	Existing use	Gross floor area
Certain portions in Eastern Place Phases I & II, 787 Dong Feng East Road, Dongshan District, Guangzhou, Guangdong Province, PRC	100%	Residential	2,529 sq.m

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 14 and 15, respectively, to the financial statements. Further details of the Group's investment properties are set out in this report under the heading "Details of properties" above.

## PROPERTIES UNDER DEVELOPMENT

Details of movements in the properties under development of the Group during the year are set out in note 16 to the financial statements. Further details of the Group's properties under development are set out in this report under the heading "Details of properties" above.

28

## SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 29 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31st July, 2003, the Company's reserves, including share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK\$3,011,288,000 (2002: HK\$3,019,959,000). Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1,787,000.

## PRE-EMPTIVE RIGHTS

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

# Report of the Directors

## CONNECTED TRANSACTION

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 Lai Sun Development Company Limited (“LSD”), pursuant to which Basingstoke agreed to sell and LFC agreed to purchase the entire issue share capital of Preparis Company Limited, a then wholly-owned subsidiary of Basingstoke, for a total consideration of HK\$2,300,000. Further details of the transaction are included in note 21 to the financial statements.

## SUMMARY FINANCIAL INFORMATION

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

### RESULTS

	Year ended 31st July,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>119,338</u>	<u>142,510</u>	<u>161,743</u>	<u>191,593</u>	<u>135,190</u>
PROFIT/(LOSS) BEFORE TAX	<u>62,922</u>	<u>(89,471)</u>	<u>(165,864)</u>	<u>(153,573)</u>	<u>(56,376)</u>
Tax	<u>(4,103)</u>	<u>(2,352)</u>	<u>2,068</u>	<u>120,740</u>	<u>(723)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>58,819</u>	<u>(91,823)</u>	<u>(163,796)</u>	<u>(32,833)</u>	<u>(57,099)</u>
Minority interests	<u>(1,824)</u>	<u>(2,153)</u>	<u>(823)</u>	<u>44,373</u>	<u>67,927</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>56,995</u>	<u>(93,976)</u>	<u>(164,619)</u>	<u>11,540</u>	<u>10,828</u>

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION (continued) ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31st July,				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Fixed assets	52,628	50,280	6,364	8,170	8,785
Investment properties	2,946,700	2,952,400	2,954,000	2,972,060	2,956,000
Properties under development	3,377,730	3,209,980	3,354,567	3,287,781	3,625,264
Negative goodwill	(28,383)	—	—	—	—
Interests in associates	607,015	599,908	624,178	672,280	683,415
Interests in jointly-controlled entities	—	5,118	50,127	50,127	188,572
Long-term investments	2,300	—	—	—	—
Current assets	<u>264,392</u>	<u>193,351</u>	<u>228,136</u>	<u>393,966</u>	<u>358,650</u>
<b>TOTAL ASSETS</b>	<b><u>7,222,382</u></b>	<b><u>7,011,037</u></b>	<b><u>7,217,372</u></b>	<b><u>7,384,384</u></b>	<b><u>7,820,686</u></b>
Current liabilities	313,336	395,388	389,886	556,743	703,748
Long-term rental deposits received	12,666	10,735	7,303	8,660	16,538
Provision for premium on convertible note redemption	—	—	—	21,667	1,667
Convertible guaranteed bonds	—	—	—	929,445	937,206
Convertible note	—	—	—	600,000	600,000
Long-term interest-bearing bank loans, secured	1,074,362	829,445	891,635	97,112	—
Loans from a substantial shareholder	—	86,886	53,285	—	—
Minority interests	<u>219,746</u>	<u>165,085</u>	<u>162,376</u>	<u>151,889</u>	<u>429,193</u>
<b>TOTAL LIABILITIES AND MINORITY INTERESTS</b>	<b><u>1,620,110</u></b>	<b><u>1,487,539</u></b>	<b><u>1,504,485</u></b>	<b><u>2,365,516</u></b>	<b><u>2,688,352</u></b>
	<b><u>5,602,272</u></b>	<b><u>5,523,498</u></b>	<b><u>5,712,887</u></b>	<b><u>5,018,868</u></b>	<b><u>5,132,334</u></b>

# Report of the Directors

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers was less than 30% of the Group's total turnover. During the year, the Group's purchases from its five largest suppliers accounted for approximately 47% of the Group's total purchases, while the largest supplier accounted for approximately 13% of the Group's total purchases for the year.

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

## DISCLOSURE PURSUANT TO PARAGRAPH 3.7.1 OF PRACTICE NOTE 19

Loans agreements for certain bank facilities of certain subsidiaries of the Group (the "Subsidiaries") impose specific performance obligations on LSG, the controlling shareholder of the Company, and LSD, an associate of LSG.

Pursuant to the covenants of the loans agreements, the Company and the Subsidiaries shall procure that LSG and LSD shall together hold not less than 45% of the total issued share capital of the Company at all times throughout the terms of the facilities.

The outstanding loan balances of these facilities at the balance sheet date amounted to HK\$829,310,000, with the last instalment repayment falls due in December 2007.

## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report. The non-executive directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

The Company has established an audit committee in accordance with paragraph 14 of the Code for the purpose of reviewing the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company, namely Mr. Wong Yee Sui, Andrew and Mr. Lam Bing Kwan.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming 2003 Annual General Meeting.

At the Company's 2001 Annual General Meeting held on 21st December, 2001, PricewaterhouseCoopers retired as auditors of the Company and a resolution was passed to appoint Ernst & Young as auditors of the Company in place of the retired auditors. In addition, there was a change of auditors of the Company from Ernst & Young to PricewaterhouseCoopers for the year ended 31st July, 2000. There were no other changes of auditors of the Company in the past three years.

On Behalf of the Board

Lim Por Yen  
Chairman

Hong Kong  
7th November, 2003

# Report of the Auditors

**ERNST & YOUNG**

安永會計師事務所

To the members

Lai Fung Holdings Limited

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 33 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

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

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

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st July, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

*Certified Public Accountants*

Hong Kong

7th November, 2003

# Consolidated Profit and Loss Account

Year ended 31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	6	119,338	142,510
Cost of sales		<u>(25,561)</u>	<u>(80,580)</u>
Gross profit		93,777	61,930
Other revenue	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

31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<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	2,300	—
		<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	177,508	96,284
		<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	16,170	—
		<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 — PAGE 35</b>		<b>6,909,046</b>	<b>6,615,649</b>

# Consolidated Balance Sheet

31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<hr/>			
TOTAL ASSETS LESS CURRENT LIABILITIES — PAGE 34		6,909,046	6,615,649
NON-CURRENT LIABILITIES			
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>
MINORITY INTERESTS			
		<u>(219,746)</u>	<u>(165,085)</u>
		<u>5,602,272</u>	<u>5,523,498</u>
CAPITAL AND RESERVES			
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>

Lim Por Yen  
Director

Lam Kin Ming  
Director

# Consolidated Statement of Changes in Equity

Year ended 31st July, 2003

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Revaluation reserve of properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	Retained profits/ accumulated losses) HK\$'000	Total 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		460,624	3,222,276*	17,349*	417,384*	1,329,918*	181,292*	(26,571)*	5,602,272

\* 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

Year ended 31st July, 2003

	Issued share capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Revaluation reserve of properties under development held for investment potential HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
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

Year ended 31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<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)	—
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		1,931	3,432
Cash generated from operations		71,753	39,641
Profits taxes paid outside Hong Kong		(1,179)	(1,424)
Net cash inflow from operating activities		70,574	38,217
<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		232	(9,383)
Net cash outflow from investing activities		(97,049)	(74,589)

# Consolidated Cash Flow Statement

Year ended 31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<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		(48,419)	(62,431)
		<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		(731)	(593)
		<u>177,508</u>	<u>96,284</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
<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	48,027	20,901
		<u>177,508</u>	<u>96,284</u>

# Company Balance Sheet

31st July, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	18	<u>3,424,919</u>	<u>3,392,520</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	24	48,840	20,392
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		<u>(1,847)</u>	<u>(2,475)</u>
<b>NET CURRENT ASSETS</b>		<u>46,993</u>	<u>17,917</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,471,912</b>	<b>3,410,437</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans from a substantial shareholder	27	<u>—</u>	<u>(6,625)</u>
		<u>3,471,912</u>	<u>3,403,812</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	29	460,624	383,853
Reserves	31(b)	<u>3,011,288</u>	<u>3,019,959</u>
		<u>3,471,912</u>	<u>3,403,812</u>

40

Lim Por Yen  
Director

Lam Kin Ming  
Director

# 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.

# Notes to Financial Statements

31st July, 2003

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

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

42

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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Associates (continued)

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.

44

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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Negative goodwill (continued)

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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

46

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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are 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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. 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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 option 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.

# Notes to Financial Statements

31st July, 2003

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

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.

# Notes to Financial Statements

31st July, 2003

## 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.

# Notes to Financial Statements

31st July, 2003

## 4. SEGMENT INFORMATION (continued)

### Business segments

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

### 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 revenue:						
Sales to external customers	6,712	43,064	—	—	6,712	43,064
Rental income	—	—	112,626	99,446	112,626	99,446
Other revenue	3,829	1,856	25,888	19,596	29,717	21,452
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 revenue					22,496	37,709
Unallocated expenses					(14,122)	(9,982)
Loss on disposal of a jointly-controlled entity					(3,772)	—
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)	—	—	—	(45,057)
Profit/(loss) before tax					62,922	(89,471)
Tax					(4,103)	(2,352)
Profit/(loss) before minority interests					58,819	(91,823)
Minority interests					(1,824)	(2,153)
Net profit/(loss) from ordinary activities attributable to shareholders					<u>56,995</u>	<u>(93,976)</u>

# Notes to Financial Statements

31st July, 2003

## 4. SEGMENT INFORMATION (continued)

### Business segments (continued)

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>

# Notes to Financial Statements

31st July, 2003

## 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:

		Group	
	Notes	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.

# Notes to Financial Statements

31st July, 2003

## 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:

	Group	
	2003 HK\$'000	2002 HK\$'000
<hr/>		
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 revenue:		
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>171,551</u>	<u>201,671</u>

# Notes to Financial Statements

31st July, 2003

## 7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
<hr/>			
Auditors' remuneration:			
Charge for the year		840	700
Underprovision in prior year		100	—
		<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		(11,870)	(7,003)
		<u>10,879</u>	<u>10,197</u>
Pension scheme contributions		361	227
Less: Forfeited contributions		(239)	(253)
		<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 revenue" on the face of the consolidated profit and loss account.

# Notes to Financial Statements

31st July, 2003

## 8. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
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>1,630</u>	<u>831</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).

# Notes to Financial Statements

31st July, 2003

## 9. DIRECTORS' REMUNERATION (continued)

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

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

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

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

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

# Notes to Financial Statements

31st July, 2003

## 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.

	Group	
	2003	2002
	HK\$'000	HK\$'000
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>4,103</u>	<u>2,352</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.

# Notes to Financial Statements

31st July, 2003

## 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 HK\$'000	Additions HK\$'000	Disposals HK\$'000	31st July, 2003 HK\$'000
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	1,493	78	(2)	1,569
	<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	987	293	(1)	1,279
	<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.

# Notes to Financial Statements

31st July, 2003

## 15. INVESTMENT PROPERTIES

	Group	
	2003 HK\$'000	2002 HK\$'000
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) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 25 to the financial statements.

# Notes to Financial Statements

31st July, 2003

## 16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
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	(386)	882
	<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	(257)	339
	<u>903,268</u>	<u>734,598</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.

# Notes to Financial Statements

31st July, 2003

## 16. PROPERTIES UNDER DEVELOPMENT (continued)

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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
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.

# Notes to Financial Statements

31st July, 2003

## 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:

	Group Negative goodwill HK\$'000
<hr/>	
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>(28,383)</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:

	Goodwill eliminated against consolidated accumulated losses HK\$'000	Goodwill eliminated against capital reserve HK\$'000	Negative goodwill credited to capital reserve HK\$'000	Total HK\$'000
<hr/>				
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>13,965</u>	<u>457</u>	<u>(181,749)</u>	<u>(167,327)</u>

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN SUBSIDIARIES

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

# Notes to Financial Statements

31st July, 2003

## 18. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows (continued):

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	
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.

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
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>607,015</u>	<u>599,908</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 and 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

# Notes to Financial Statements

31st July, 2003

## 19. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates are as follows (continued):

Name	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
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.

68

## 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	276	(737)
	42,560	50,175
Less: Provision for impairment	(42,560)	(45,057)
	—	5,118

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.

# Notes to Financial Statements

31st July, 2003

## 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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 Preparis, a then wholly-owned subsidiary of Basingstoke, for a total consideration of HK\$2,300,000. The sole assets of Preparis 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.

# Notes to Financial Statements

31st July, 2003

## 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	2002
	HK\$'000	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

70

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

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.

# Notes to Financial Statements

31st July, 2003

## 25. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2003	2002
	HK\$'000	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	—	288,619
	<u>1,121,488</u>	<u>967,451</u>
Portion classified as current liabilities	<u>(47,126)</u>	<u>(138,006)</u>
Long term portion	<u>1,074,362</u>	<u>829,445</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.

# Notes to Financial Statements

31st July, 2003

## 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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
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>215,342</u>	<u>227,425</u>

## 27. LOANS FROM A SUBSTANTIAL SHAREHOLDER

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest-bearing at the 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>—</u>	<u>5,838</u>
	16,170	86,886	—	6,625
Portion classified as current liabilities	<u>(16,170)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Long term portion	<u>—</u>	<u>86,886</u>	<u>—</u>	<u>6,625</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.

# Notes to Financial Statements

31st July, 2003

## 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.

# Notes to Financial Statements

31st July, 2003

## 29. SHARE CAPITAL (continued)

### 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.

# Notes to Financial Statements

31st July, 2003

## 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

	Note	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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		3,222,276	(9,558)	(201,430)	3,011,288

75

## 32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

### Acquisition of a subsidiary

	Note	2003 HK\$'000
Net assets acquired:		
Long term investments	21	2,300
Satisfied by:		
Cash		2,300

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

# Notes to Financial Statements

31st July, 2003

## 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	2002
	HK\$'000	HK\$'000
Within one year	58,532	59,202
In the second to fifth years, inclusive	112,730	119,387
After five years	65,002	83,147
	<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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	97	233
In the second to fifth years, inclusive	—	97
	<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:

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

# Notes to Financial Statements

31st July, 2003

## 34. CONTINGENT LIABILITIES (continued)

### (a) (continued)

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:

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

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.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Monday, 22nd December, 2003 at 9:30 a.m. for the following purposes:

1. To receive and consider the audited Accounts and the Reports of the Directors and of the Auditors for the year ended 31st July, 2003.
2. To re-elect directors and to fix the directors' remuneration.
3. To appoint Auditors and to authorise the directors to fix their remuneration.
4. To consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

(A) "THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.10 each in the share capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next Annual General Meeting of the Company;
  - (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the Members of the Company in general meeting; or
  - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Articles of Association of the Company to be held."

## Notice of Annual General Meeting

(B) “THAT:

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

“Relevant Period” shall have the same meaning assigned to it under paragraph (c) of the Ordinary Resolution No. 4(A) in the Notice convening this Meeting; and

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

## Notice of Annual General Meeting

(C) “THAT subject to the passing of Ordinary Resolutions No. 4(A) and 4(B) in the Notice convening this Meeting, the general mandate granted to the directors and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by addition thereto of an amount representing the aggregate nominal amount of shares in the share capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution.”

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

Hong Kong, 7th November, 2003

*Notes:*

1. A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a Member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Registrars in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
3. A circular containing details regarding Ordinary Resolutions No. 4(A) to 4(C) above will be sent to Members together with the Company's Annual Report for 2002-2003.