LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

(Stock code: 1125)

Annual Report 2005-2006

Contents

Lai Fung Holdings Limited
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E-mail info@laifung.com

Stock code on Hong Kong Stock Exchange: 1125

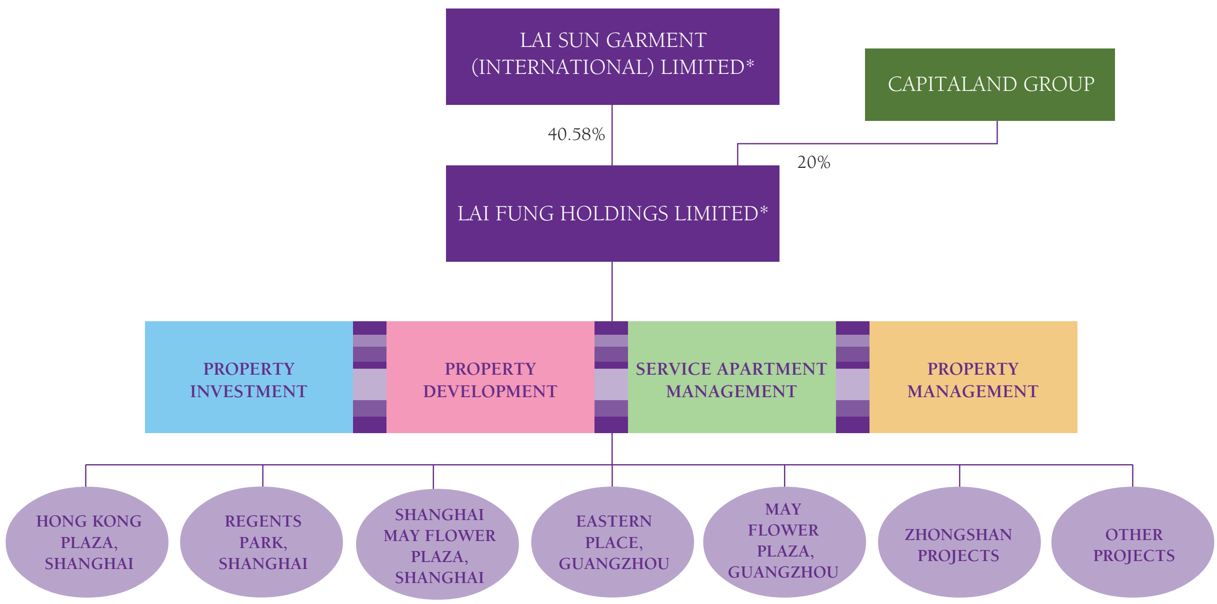
Corporate Profile

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

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

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

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



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

Corporate Information

Place of Incorporation
Cayman Islands

Directors
Lam Kin Ngok, Peter (Chairman)
Lam Kin Ming (Deputy Chairman)
Lam Kin Hong, Matthew
(Executive Deputy Chairman)
Lam Hau Yin, Lester
(Chief Executive Officer)
Lee Po On
U Po Chu
Lau Shu Yan, Julius
Tam Kin Man, Kraven
Lim Ming Yan
Lui Chong Chee
Wong Yee Sui, Andrew
Lam Bing Kwan
Ku Moon Lun

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

Qualified Accountant
Hui Hon Pong

Share Registrars in Hong Kong
Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

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

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

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

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

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

Chairman's Statement

Chairman **LAM Kin Ngok, Peter**

RESULTS

For the year ended 31st July, 2006, the Group recorded a turnover of HK$703,352,000 (2005: HK$402,863,000) and a gross profit of HK$308,673,000 (2005: HK$161,607,000), representing an increase of approximately 75% and 91%, respectively from the previous year.

For the year ended 31st July, 2006, the Group achieved a profit from operating activities of HK$294,532,000 (2005: HK$516,052,000) and a profit attributable to equity holders of the Company of HK$132,745,000 (2005: HK$246,197,000), representing a decrease of approximately 43% and 46%, respectively from the previous year.

The decline in profit from operating activities and profit attributable to equity holders of the Company was mainly attributable to lower gain on revaluation of investment properties of HK$59 million for the year ended 31st July, 2006 as compared to HK$435 million in the previous year.

Basic earnings per share was HK$0.0215 for the year ended 31st July, 2006 compared to HK$0.0419 for the previous year.

Chairman's Statement

Shareholders' equity as at 31st July, 2006 amounted to HK$5,245,835,000, up from HK$4,182,601,000 as at 31st July, 2005. Net asset value attributable to equity holders of the Company per share as at 31st July, 2006 was HK$0.65, as compared to HK$0.71 as at 31st July, 2005.

FINAL DIVIDEND

The Board of Directors have recommended the payment of a final dividend of 0.1 HK cent per ordinary share for the year ended 31st July, 2006 (2005: Nil) to shareholders registered as at 22nd December, 2006. If approved at the Annual General Meeting of the Company, the dividend will be payable on 29th December, 2006.

BUSINESS REVIEW

Investment properties

Property rental results

During the year ended 31st July, 2006, the Group recorded turnover of HK$197,621,000 from rental income. Breakdown of turnover from rental income is as follows:

	Year ended 31st July		
	2006	2005	**Change**
	HK$	HK$	%
Shanghai			
Hong Kong Plaza	**157,876,000**	140,077,000	13
Guangzhou			
May Flower Plaza	**39,745,000**	15,365,000	159
Total	**197,621,000**	155,442,000	27

Development properties

Property sales results

	Approximate contracted sales area	**Approximate average contracted selling price**	**Approximate contracted total sales amount***
	sq.m.	HK$/sq.m.	HK$
Guangzhou			
Eastern Place Phase IV	34,000	10,800	366,000,000

* Before business tax

Chairman's Statement

During the year ended 31st July, 2006, the Group concluded total contracted sales area of approximately 34,000 sq.m.. All of these contracted sales were attributable to the sales of units at Guangzhou Eastern Place Phase IV.

The Group took advantage of the strength of the Guangzhou property market to launch the pre-sale of units at Eastern Place Phase IV starting in February 2006. As a result, the Group was able to sell most of its residential units in Eastern Place Phase IV and achieved impressive average selling price, before the austerity measures with respect to the property market were introduced by the central government in mid-2006. These contracted sales for units at Eastern Place Phase IV will be recognised as revenue and profit in the financial statements of the Group upon the completion of the project in the following financial year.

On the other hand, due to the relatively stagnant property market in Shanghai during the period, the sales plan for the remaining unsold finished units at Shanghai Regents Park Phase I was delayed to the following financial year.

Completion of development properties

During the year ended 31st July, 2006, the Group completed the development of Shanghai Regents Park Phase I, with gross floor area ("GFA") approximately 92,000 sq.m.

Under the existing Hong Kong Financial Reporting Standards, the Group only recognises revenue and profit from contracted sales of development properties after 1st January, 2005 upon completion of the relevant properties. The Group recorded turnover of HK$505,731,000 from sales of development properties, substantially most of which were attributable to the recognition of final portions of the revenue from sales of residential units at Shanghai Regents Park Phase I made before 1st January, 2005 and the revenue from sales of units at Shanghai Regents Park made after 1st January, 2005. The remainder was attributable to the sales of finished residential units at the earlier Phases I, II and III of Guangzhou Eastern Place. Breakdown of turnover from sales of properties is as follows:

	Year ended 31st July		
	2006	2005	**Change**
	HK$	HK$	%
Shanghai			
Regents Park, Phase I	**500,412,000**	189,175,000	
Guangzhou			
Eastern Place, Phases I, II and III	**5,319,000**	58,246,000	
Total	**505,731,000**	247,421,000	104

Chairman's Statement

MARKET OVERVIEW AND OPERATING ENVIRONMENT

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

In 2005, China's economy continued its rapid growth and achieved a GDP growth of 9.9%, while per capita disposable income of urban residents in cities and towns recorded growth of 9.6%.

In the economic forecast in the 11th Five-Year Plan (2006-2010) recently announced, the annual GDP growth of China is expected to grow at least 7.5% per year in the next 5 years. The resilient economic growth, stable increase in average income per capita and the expectation of Renminbi appreciation would support the growth of urban property market in China.

Since the mid-2005, the central and local governments of China strengthened control over the property sector. A series of austerity measures were implemented to tighten property financing, restrain speculation and impose stringent land management controls, including strict prohibition on speculation on idle land and on transfers of pre-sale units, as well as tightening of administration on tax collection.

In 2006, the central government introduced further measures which mainly aim to discourage speculative and investment-oriented housing demand and the development of luxurious properties in China. Such measures include requiring residential units smaller than 90 square meters to account for at least 70% of the total floor area in any new residential projects, imposing tax upon the transfer of a residential unit within 5 years of purchase, restricting commercial banks from granting loans to property developers that cannot meet the 35% capital fund requirement for property development projects, increasing the minimum down-payment from 20% to 30% for those who are buying new residential units larger than 90 square meters, restricting demolition of houses, and continuing to suspend the land supply for construction of villas and low-density luxurious housing. Foreign individuals are restricted to buying self-use commodity property only with written proof of 1-year stay in China for the reason of employment or study while Hong Kong, Macau and Taiwanese individuals do not need to comply with the 1-year proof of stay requirement. Such new measures also require the local governments to publish plans on the construction of affordable housing, strictly follow approved land-use programmes, impose tighter restrictions on the conversion of farmland for development, strictly follow approval procedures in acquiring land for public infrastructure projects, and ensure that land sales must be conducted through auctions and public tenders and priorities should be given to the building of low cost and affordable housing.

Chairman's Statement

In Shanghai, these control measures had the most significant impact. Since mid-2006, the supply and demand of residential units as well as the residential property prices in Shanghai were effectively restrained. However, rental rates for commercial, office and service apartment properties in Shanghai remained strong due to increased commercial and consumer demand. In Guangzhou and other Pearl River Delta areas, property market sustained a stable performance and residential property prices increased steadily since early 2006.

In the short to medium term, the Group believes that the government control measures are intended to curtail speculative activities, improve housing supply and promote a healthy and stable development of the property market in China, which will eventually benefit the Group in the longer term.

REVIEW OF MAJOR PROPERTY PROJECTS

SHANGHAI

Hong Kong Plaza

Hong Kong Plaza is a twin-tower prime property located at Huaihaizhong Road, Luwan District, Shanghai with a GFA attributable to the Group of approximately 120,000 sq.m. comprising office, shopping arcades and service apartments. Rental income from Hong Kong Plaza during the year ended 31st July, 2006 amounted to HK$157,876,000, up from HK$140,077,000 in the previous year.

Following the completion of renovation work of the service apartments at the lower floors last year, the Group continued the upgrade and renovation of the service apartments at the upper floors this year, which is expected to be fully completed next year.

In line with the positioning of Huaihaizhong Road as a prime and high-end shopping district in Shanghai Puxi area, the Group is now conducting feasibility studies to substantially upgrade and renovate the shopping spaces of the property in the next 12 months. The upgrade and facelift work is targeted to improve the rental yield of this property.

Regents Park

Regents Park is a major residential project located in the Zhongshan Park Commercial Area at the prestigious Changning District, Shanghai with a total saleable GFA of approximately 154,000 sq.m. (GFA attributable to the Group of approximately 146,000 sq.m.). Phase I of the project comprising 7 residential towers with 1,010 saleable units (GFA attributable to the Group of approximately 87,000 sq.m.) was completed in December 2005. As of 31st July, 2006, substantially most of the units in Phase I were sold and handed over to the buyers. During the year ended 31st July, 2006, the Group recognised sales revenue from Phase I amounting to HK$500,412,000. As at 31st July, 2006, the Group had 81 units on hand in Phase I (equivalent to GFA attributable

South Tower Shopping Mall,
Hong Kong Plaza, Shanghai

Hong Kong Plaza, Shanghai

Regents Park, Shanghai

Clubhouse, Regents Park

Night view of Northgate Plaza Phase II,
Shanghai *(artist impression)*

Chairman's Statement

to the Group of approximately 5,000 sq.m. or 6% of the entire GFA attributable to the Group). The Group originally intended to sell these finished units during the six months ended 31st July, 2006. However, due to the austerity measures in China and the stagnant property market in Shanghai during the period, the sales plan for these relatively small amount of unsold units was delayed. At the moment, the Group intends to sell these units at a more appropriate time in order to achieve better selling prices.

Phase II of the project will comprise 6 residential towers with 466 units (GFA attributable to the Group of approximately 59,000 sq.m.). Construction of Phase II was slightly delayed due to the new residential property control measures announced in 2006 but work eventually commenced in August 2006 and the Group expects to complete construction in the first half of 2008. Pre-sale of Phase II is expected to start in the second half of 2007.

Shanghai May Flower Plaza (Su Jia Xiang Project)

In June 2006, the Group completed the acquisition of Assetop Asia Limited ("Assetop") from Lai Sun Garment (International) Limited, a substantial shareholder of the Company. The principal asset of Assetop is a 95% attributable interest in this property development project located at Su Jia Xiang, Zhabei District, Shanghai.

This development will have a total GFA of approximately 133,000 sq.m. (GFA attributable to the Group of approximately 126,000 sq.m.), comprising residential and office apartments, commercial spaces, carparks and ancillary facilities. Construction of Shanghai May Flower Plaza is expected to start around the first half of 2007 and is scheduled to be completed by the end of 2009.

Shanghai Northgate Plaza

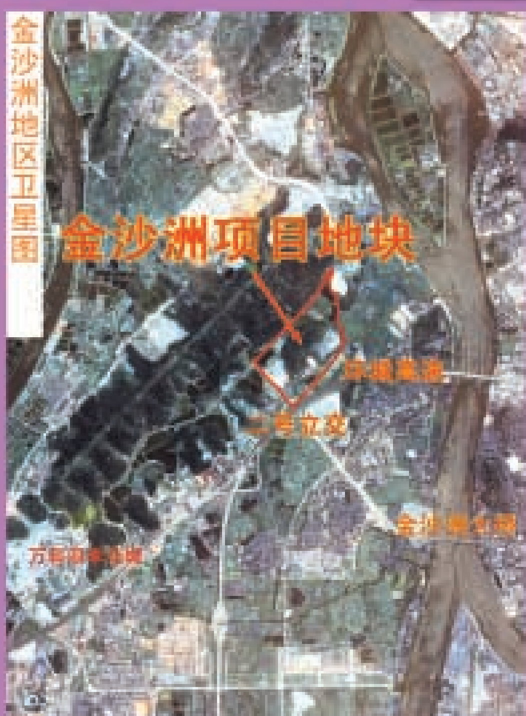
Phase I of Shanghai Northgate Plaza is a block of office units with retail podium located in Zhabei District of Shanghai near the Shanghai Railway Terminal. This complex has a total GFA of approximately 36,300 sq.m. (GFA attributable to the Group of approximately 17,500 sq.m.) comprising office units and retail spaces. During the year ended 31st July, 2006, the share of profit contribution to the Group from Shanghai Northgate Plaza was HK$3,907,000, up from HK$3,015,000 in the previous year.

The Group plans to develop Phase II of Shanghai Northgate Plaza on the vacant site located adjacent to Phase I. The Phase II development will have a total GFA of approximately 29,000 sq.m. (GFA attributable to the Group of approximately 14,000 sq.m.) comprising service/office apartment units with retail podium. The Group is in the process of finalising construction plans of the Phase II development. Construction of Phase II is expected to commence in 2007 and is scheduled to be completed in 2010.

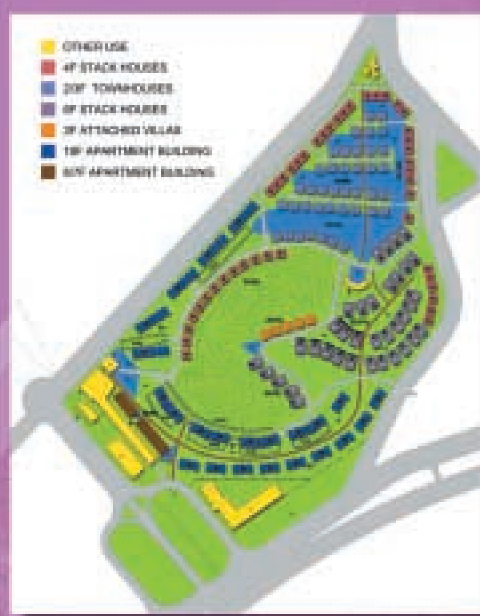
May Flower Plaza, Guangzhou

Hai Zhu Plaza, Guangzhou *(artist impression)*

Eastern Place, Guangzhou



Jinshazhou project, Guangzhou



Site plan, Jinshazhou project

Chairman's Statement

GUANGZHOU

May Flower Plaza

May Flower Plaza is a prime property situated on Zhongshanwu Road, Yuexiu District directly above the Gongyuanqian subway station in Guangzhou, interchange station of Guangzhou Subway Line No. 1 and 2. This 13-storey complex has a total GFA of approximately 50,600 sq.m. (GFA attributable to the Group of approximately 39,000 sq.m.) comprising retail spaces, restaurants and fast food outlets, cinemas and office units.

The property was opened in 2005 and is now 100% occupied by tenants that are well known corporations and/or consumer brands. Rental income from May Flower Plaza during the year ended 31st July, 2006 amounted to HK$39,745,000.

Eastern Place

Eastern Place is a multi-phase residential project located at Dongfeng East Road, Yuexiu District, Guangzhou. Phases I to III, which comprise 6 residential towers (Towers 1 to 6) and the residents' clubhouse, had been completed. The resident clubhouse houses an Olympic size swimming pool, fitness facilities, a convenience store as well as a restaurant.

Phase IV, which comprises 2 residential towers (Towers 7 and 8) with 382 saleable units (GFA attributable to the Group of approximately 37,000 sq.m.) has been substantially completed. Occupation permit for Phase IV is expected to be issued by the end of 2006.

The Group launched the pre-sale of Phase IV in February 2006 and has received good market response since then. As of 31st July 2006, the Group made contracted sales of 355 units in Phase IV with a total GFA of approximately 34,000 sq.m., representing 93% of total saleable units attributable to the Group in Phase IV. The average sales price achieved in Phase IV was approximately RMB11,000 per sq.m.

The Group has started the planning work of Phase V, which has an intended total GFA of approximately 113,000 sq.m. comprising residential units, office and retail spaces. According to the current development plan, Phase V is expected to be completed in 2009. Pre-sale of Phase V is expected to start in second half of 2008 or early 2009.

Jinshazhou Project

Jinshazhou project is a 50:50 joint venture with CapitaLand China Holdings Pte. Ltd. ("CapitaLand China"). This proposed development in Heng Sha, Baiyuan District, Guangzhou has a total GFA of approximately 360,000 sq.m. (GFA attributable to the Group of approximately 180,000 sq.m.), comprising low-rise residential units with ancillary facilities including carparks and shopping amenities.

Chairman's Statement

The Group completed the joint venture arrangement for this project with CapitaLand China in February 2006. According to the current development schedule, the project will be completed in phases from 2008 to 2010.

Hai Zhu Plaza

Hai Zhu Plaza is located at Chang Di Main Road in Yuexiu District, Guangzhou along the Pearl River. The proposed development has a GFA attributable to the Group of approximately 100,000 sq.m. and is intended for a high-end office tower, a service apartment tower, a retail podium, carparks as well as ancillary facilities.

The project is currently in the process of resettlement of original occupants which is expected to be completed in 2007. On this basis, the development is expected to be commenced thereafter and will be completed in 2010.

ZHONGSHAN

The Group wholly owns a project located in the western district of Zhongshan with a site area of approximately 237,000 sq.m. The proposed development has a total GFA of approximately 350,000 sq.m., comprising mainly residential units with commercial spaces and ancillary facilities.

The project is currently in the planning stage. According to the current development schedule, the project is expected to be completed in phases from 2008 to 2010.

CORPORATE DEVELOPMENT

In June 2006, an indirect wholly-owned subsidiary of CapitaLand China completed the subscription for 1,610 million new ordinary shares of the Company at HK$0.40 per share, and thereby, CapitaLand China became a strategic shareholder of the Company holding 20% of the enlarged issued share capital of the Company. From this issue of new shares, the Company raised approximately HK$643 million after expenses.

CapitaLand China is a wholly-owned subsidiary of CapitaLand Limited ("CapitaLand"), a company incorporated in Singapore and whose shares are listed on the Singapore Exchange Securities Trading Limited. The CapitaLand group's assets mainly comprise residential and commercial real estate properties in Singapore, Hong Kong, Australia and China.

The Group considers that the subscription has enlarged the Company's equity capital base and the Group is poised to benefit from CapitaLand's experience and inputs in relation to property development and investment in China.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31st July, 2006, the Group had total borrowings in the amount of HK$1,056 million (2005: HK$996 million), representing an increase of HK$60 million from that as at the preceding financial year end. The consolidated net assets attributable to the equity holders of the Company amounted to HK$5,246 million (2005: HK$4,183 million). The resultant debt to equity ratio was 0.20 (2005: 0.24).

Approximately 96% of the Group's borrowings were on a floating rate basis at the balance sheet date and the remaining 4% were interest-free. As at 31st July, 2006, approximately 24% of the Group's borrowings were denominated in Renminbi ("RMB"), 18% were denominated in Hong Kong dollars ("HKD") and 58% were denominated in United States dollars ("USD").

The Group's monetary assets, loans, and transactions are principally denominated in RMB, HKD and USD. Considering that the exchange rate between HKD and USD is pegged, the Group believes that the corresponding exposure to exchange rate risk is nominal. The Group has a net exchange exposure to RMB as Group's assets are principally located in China and the revenues are in RMB. The Group is taking the view that RMB will continue to appreciate against HKD in the foreseeable future and the net exchange exposure to RMB will benefit the Group's financial position. As present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB and USD. However, the Group will constantly review the economic situation and its foreign 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, 2006 was spread over a period of ten years, with approximately 11% repayable within one year, 88% repayable between two to five years and 1% repayable over 5 years. The term loans of the Group have amortisation throughout the tenure. The Group is constantly negotiating with the borrowers in rescheduling the amortisation where necessary. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK$3,180 million, service apartments with carrying value amounting to approximately HK$555 million, properties under development with carrying value amounting to approximately HK$476 million, a property with carrying value amounting to approximately HK$45 million, completed properties for sale with carrying value amounting to approximately HK$43 million and bank balances amounting to approximately HK$7 million at the balance sheet date.

Chairman's Statement

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

CONTINGENT LIABILITIES

According to a practice common among banks in China when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Group is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, Phase I of Regents Park, and Phases I to IV of Eastern Place. The Group's obligations have been gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. As China's property market is currently stable, the management does not expect such contingent liabilities to crystallise to a material extent in the near term.

EMPLOYEES AND REMUNERATION POLICIES

As the employer of approximately 750 staff, the Group recognises the importance of maintaining strong human resources in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a share option scheme, a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

PROSPECTS

The Group principally focuses on property development projects located in prime areas in core cities in China including Shanghai, Guangzhou and Zhongshan. The Group currently has a sizeable rental property portfolio with an aggregate GFA attributable to the Group of around 200,000 sq.m., and has property under development and land bank with an aggregate GFA attributable to the Group of around 1 million sq.m. in Shanghai, Guangzhou and Zhongshan. Our property projects are all located in prime urban areas serviced by mass transit system or conveniently linked to transportation network within the city.

For our investment properties, the Group realises the upside potential in rental rates in Shanghai and Guangzhou in the next few years, given the strong consumer spending and office demand. Through improvement of tenant mix, renovations and facelifts, the Group will strive to improve the rental income from its investment properties.

Chairman's Statement

For our development properties, the Group has accelerated its property development schedule and expects the completion volume to increase significantly in the next few years. The Group is actively looking for property development opportunities in the core cities such as Shanghai and Guangzhou where we already have a strong presence. Other than the replenishment of land bank in Shanghai and Guangzhou, the Group will continue to seek development opportunities with our partners. As such, the Group has been studying the potential of Beijing and other major cities of China where such opportunities may materialise. Going forward, one of the key development strategies to be adopted by the Group is through co-operation with joint venture partners.

MANAGEMENT AND STAFF

On behalf of the Board, I would like to thank the Management and staff of the Company for their hard work and dedication. I would also like to express any appreciation of the continuous support of our shareholders and business associates.

Lam Kin Ngok, Peter
Chairman

Hong Kong
10th November, 2006

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, 2006.

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, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 101.

The directors propose a final dividend of 0.1 HK cents per ordinary share for the year ended 31st July, 2006 (2005: Nil). No interim dividend has been declared or paid by the Company for the year (2005: 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:

Lam Kin Ngok, Peter *(Chairman)*	
Lam Kin Ming* *(Deputy Chairman)*	
Lam Kin Hong, Matthew *(Executive Deputy Chairman)*	
Lam Hau Yin, Lester *(Chief Executive Officer)*	
Ho Wing Tim *(Deputy Chief Executive Officer)*	(resigned on 21st June, 2006)
Lee Po On	
U Po Chu	
Lau Shu Yan, Julius	
Tam Kin Man, Kraven	

Non-executive directors:

Lim Ming Yan	(appointed on 21st June, 2006)
Lui Chong Chee	(appointed on 21st June, 2006)
Wong Yee Sui, Andrew**	
Lam Bing Kwan**	
Ku Moon Lun**	(appointed on 21st June, 2006)
Lam Kin Ko, Stewart	(resigned on 1st September, 2006)
Mui Ying Chun, Robert**	(resigned on 1st October, 2005)
Wan Yee Hwa, Edward**	(appointed on 1st October, 2005 and resigned on 21st June, 2006)

* *Also alternate director to Messrs. Ho Wing Tim and Lam Kin Ko, Stewart*

** *Independent non-executive directors*

Report of the Directors

DIRECTORS (continued)

In accordance with Article 99 of the Company's Articles of Association, Mr. Lim Ming Yan, Mr. Lui Chong Chee and Mr. Ku Moon Lun 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. Lee Po On and Madam U Po Chu retire from office by rotation at the forthcoming Annual General Meeting. Being eligible, Madam U offers herself for re-election. However, Mr. Lee has indicated that he will not be offering himself for re-election at the forthcoming Annual General Meeting of the Company.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming, Mr. Lam Kin Hong, Matthew, Mr. Lau Shu Yan, Julius, Madam U Po Chu, Mr. Lim Ming Yan and Mr. Lui Chong Chee held interests and/or directorships in companies engaged in the businesses of property investment and development in Hong Kong and Mainland of China.

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

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors:

Mr. Lam Kin Ngok, Peter, Chairman, aged 49, was appointed a director of the Company in November 1993. Mr. Lam is also the chairman of Lai Sun Development Company Limited ("LSD"), the deputy chairman of Lai Sun Garment (International) Limited ("LSG") (a substantial shareholder of the Company), an executive director of eSun Holdings Limited ("eSun") and Crocodile Garments Limited ("CGL"). LSD, LSG, eSun and CGL are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lam has extensive experience in property development and investment business. He is a director of the Real Estate Developers Association of Hong Kong, a member of the Hong Kong Hotel Owners Association, a council member of the Anglo Hong Kong Trust and a member of the Film Development Committee. Mr. Lam is a son of Madam U Po Chu, an executive director of the Company, and is the younger brother of Mr. Lam Kin Ming, the deputy chairman of the Company.

Mr. Lam Kin Ming, Deputy Chairman, aged 69, was appointed a director of the Company in September 1997. Mr. Lam is the chairman of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and chairman and chief executive officer of Crocodile Garments Limited and a non-executive director of Lai Sun Development Company Limited and eSun Holdings Limited. Mr. Lam has extensive experience in property development and investment and garment businesses, and has been involved in the day-to-day management of the garment business since 1958. Mr. Lam is the elder brother of Mr. Lam Kin Ngok, Peter.

Mr. Lam Kin Hong, Matthew, Executive Deputy Chairman, aged 38, was appointed a director of the Company in December 2001. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and Crocodile Garments Limited. He attained a Bachelor of Science Degree from the University of London and underwent his training as a solicitor with an international law firm, Messrs. Richards Butler. He is a member of the Law Society of Hong Kong and the Law Society of England and Wales. Mr. Lam has considerable experience in the property development fields and corporate finance fields in Hong Kong and Mainland of China. Mr. Lam is the younger brother of Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming.

Mr. Lam Hau Yin, Lester, Chief Executive Officer, aged 25, was appointed a director of the Company in April 2005. He is also an executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company) and an alternate director to Madam U Po Chu, a non-executive director of Lai Sun Garment (International) Limited, and a vice president of Lai Sun Development Company Limited. He holds a bachelor of science in business administration degree from Northeastern University, Boston, USA. He has attained working experience since 1999 in various companies engaged in securities investment, hotel operations, environmental products and entertainment. He is a son of Mr. Lam Kin Ngok, Peter.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Mr. Lee Po On, aged 51, was appointed a director of the Company in January 2003. Mr. Lee joined the Lai Sun Group in November 1987. He is also an executive director of Lai Sun Garment (International) Limited ("LSG") (a substantial shareholder of the Company), and an executive director and chief executive officer of eSun Holdings Limited ("eSun"). Both LSG and eSun are listed on the Main Board of The Hong Kong Stock Exchange. He is a member of The Institute of Chartered Accountants in England & Wales and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee has about 30 years of financial and commercial experience including ten years with KPMG and five years as former chief executive officer of Asia Television Limited.

Madam U Po Chu, aged 81, was appointed a director of the Company in February 2003. She is also a non-executive director of Lai Sun Garment (International) Limited (a substantial shareholder of the Company), Lai Sun Development Company Limited and eSun Holdings Limited. Madam U has over 55 years of experience in the garment manufacturing business and had been involved in the printing business in the mid-1960's. In the early 1970's, she started to expand the business to fabric bleaching and dyeing and became involved in property development and investment in the late 1980's. Since 1980's, Madam U began investing in the catering industry in Hong Kong for several occasions. Madam U is Mr. Lam Kin Ngok, Peter's mother. Madam U does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Madam U does not have a service contract with the Company and will be subject to retirement by rotation and will also be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Madam U is entitled to such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Mr. Lau Shu Yan, Julius, aged 50, was appointed a director of the Company in April 2005. He is also the chief executive officer of Lai Sun Development Company Limited ("LSD"), having joined the board of LSD in July 1991. Mr. Lau has over 20 years of experience in the property and securities industries holding senior management positions. Prior to joining the Lai Sun Group, he was a director of Jones Lang Wootton Limited and subsequently Jardine Fleming Broking Limited. Mr. Lau is a director and a member of the Executive Committee of Real Estate Developers Association of Hong Kong. He is also a director of a number of subsidiaries of the Company.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Executive directors: (continued)

Mr. Tam Kin Man, Kraven, aged 58, was appointed a director of the Company in April 2005. He is also a director of Lai Sun Development Company Limited ("LSD") and Lai Sun Garment (International) Limited (a substantial shareholder of the Company). He joined LSD in March 1989 and is currently a director of Furama Hotel Enterprises Limited and a number of subsidiaries of the Company. Mr. Tam is a fellow member of the Real Estate Institute of Canada and has close to 30 years of experience in property development, investment and management. He also has over 15 years of experience in the hospitality business covering hotels, restaurants and clubs in Asia and North America. He was a director and chief executive officer of the Company from May 1996 to June 1999.

Non-executive directors:

Mr. Lim Ming Yan, aged 43, was appointed a director of the Company in June 2006. Mr. Lim is the chief executive officer of CapitaLand China Holdings Group and CapitaLand Financial Limited (China Development) and is responsible for CapitaLand Group's real estate development and financial operations in China. CapitaLand China Holdings Pte Ltd ("CapitaLand China"). (a substantial shareholder of the Company), is a developer of premier homes and quality commercial properties in various gateway cities in China since 1994. CapitaLand China is a wholly owned subsidiary of CapitaLand Limited, one of the largest listed property companies in Asia. In recognition of his contribution, Mr. Lim was conferred "Magnolia Award" by Shanghai Municipal Government in 2003 and 2005. Mr. Lim studied at the University of Birmingham, UK where he graduated with first class honours. He also attended the Advanced Management Program at Harvard Business School in 2002. Save as aforesaid, Mr. Lim has not held any other directorships in listed public companies in the last three years. Mr. Lim does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lim does not have a service contract with the Company but he will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lim is entitled to receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Non-executive directors: (continued)

Mr. Lui Chong Chee, aged 46, was appointed a director of the Company in June 2006. Mr. Lui is the chief executive officer of CapitaLand Residential Limited ("CRL"), a wholly-owned subsidiary of CapitaLand Limited ("CapitaLand") which is a substantial shareholder of the Company. CapitaLand is one of the largest listed property companies in Asia. Mr. Lui is also the joint deputy chairman of United Malayan Land Bhd., and a Director of Australand and Raffles Holdings Limited. Mr. Lui joined CapitaLand in November 2001 as chief financial officer. He relinquished his position as chief financial officer and assumed the role as chief executive officer of CRL in July 2005. Prior to joining CapitaLand, Mr. Lui was the managing director of Citigroup Investment Bank (Singapore) Limited, which he joined in July 1986. He was then responsible for debt and equity capital markets and financial advisory business in Singapore. Mr. Lui has 15 years of experience in investment banking. Mr. Lui holds an MBA in Finance and International Economics and a Bachelor of Science degree in Business Administration (magna cum laude) from New York University. Mr. Lui held the position of an alternate director in The Ascott Group Limited for the period from 28th November, 2001 to 1st March, 2006. Save as aforesaid, Mr. Lui has not held any other directorships in listed public companies in the last three years. Mr. Lui does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Lui does not have a service contract with the Company but he will be subject to retirement by rotation and will be eligible for re-election at future annual general meetings of the Company, in accordance with the provisions of the Articles of Association of the Company. Mr. Lui is entitled to receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Independent non-executive directors:

Mr. Wong Yee Sui, Andrew, aged 57, was appointed an independent non-executive director of the Company in December 1999. Mr. Wong graduated from the University of Adelaide, South Australia in 1971 and obtained a Master of Business Administration degree at Queen's University, Canada in 1974. He became a Chartered Accountant in 1976 in Quebec, Canada, and a fellow member of Hong Kong Institute of Certified Public Accountants in 1988. Mr. Wong has extensive experience in the auditing and finance fields in Hong Kong and overseas. He is a partner of W. M. Sum & Co., a firm of certified public accountants in Hong Kong and an independent non-executive director of Peace Mark (Holdings) Limited.

Mr. Lam Bing Kwan, aged 57, was appointed an independent non-executive director of the Company in July 2001. Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration degree in 1974. He has substantial experience in property development and investment in the Mainland of China, having been closely involved in this industry since the mid-1980's. Mr. Lam has served on the boards of listed companies in Hong Kong for over 10 years and is currently an independent non-executive director of Lai Sun Development Company Limited and eForce Holdings Limited, and a non-executive director of Sino-i Technology Limited and Nan Hai Corporation Limited, all listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent non-executive directors: (continued)

Mr. Ku Moon Lun, aged 55, was appointed a director of the Company in June 2006. Mr. Ku was an executive director of Davis Langdon & Seah International ("DLSI") and retired at the end of 2005. DLSI is an international property consultant firm where he was responsible for implementing policies and steering the direction of the DLSI group of companies. Mr. Ku joined Davis Langdon & Seah Hong Kong ("DLSHK") in 1971. He was the chairman of the board of directors of DLSHK from 1995 to 2004. Mr. Ku has more than 35 years of experience in the real estate industry in Hong Kong. Mr. Ku was also appointed a director of Ascott Residence Trust Management Limited in January 2006. He was previously the chairman of Premas Hong Kong Limited, a facilities management company, from 2000 to 2002 and chairman of Icfox International, an information technology company, from 2000 to 2003. Mr. Ku is a fellow of the Hong Kong Institute of Surveyors, associate of the Chartered Institute of Arbitrators and member of the Association of Cost Engineers. Save as aforesaid, Mr. Ku has not held any other directorships in listed public companies in the last three years. Mr. Ku does not have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company and does not have any interest in the listed securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Ku does not have a service contract with the Company but will be subject to retirement and re-election at future annual general meetings of the Company in accordance with the provisions of the Articles of Association of the Company. Mr. Ku is entitled to receive such remuneration and discretionary bonus as may be determined by the Board from time to time with reference to the performance of the Company, duties and responsibilities of the director concerned and prevailing market conditions.

Senior management:

Mr. Tse Ho Yin, Iain, aged 56, joined the Company in March 2005 as General Manager, Guangzhou Region. Mr. Tse recently retired from the civil service after having served in the Hong Kong Police Force for 32 years. Immediately prior to his retirement, Mr. Tse, in his rank as a senior superintendent, was the deputy commander of a police district in the Kowloon West Region, with a working force of over 1,000 police and civilian officers of various ranks under his command. Mr. Tse is responsible for the management of the commercial and residential properties portfolio of the Company in the Guangzhou area.

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

Report of the Directors

ARRANGEMENT FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Scheme", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS

As at 31st July, 2006, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

The Company

	Long positions in the shares					
Name of Director	Personal Interests	Family Interests	Corporate Interests	Capacity	Total	Percentage
Lam Kin Ngok, Peter	Nil	Nil	3,265,688,037 (Note)	Beneficial owner	3,265,688,037	40.58%
Lau Shu Yan, Julius	2,258,829	Nil	Nil	Beneficial owner	2,258,829	0.03%

Note:

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

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

Report of the Directors

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 21st August, 2003 for the purpose of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to Eligible Employees (as defined in the Share Option Scheme) of the Company.

Details of the Share Option Scheme are set out in note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31st July, 2006, the following persons, some of whom are directors or chief executive of the Company, had an interest in the following long positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

Name	Capacity	Long positions in the shares: Nature	Long positions in the shares: Number of Shares	Percentage
Allianz Aktiengesellschaft	Owner of Controlled Corporation	Corporate Interest	5,872,956,478	7.30%
Dresdner Bank Aktiengesellschaft	Owner of Controlled Corporation	Corporate Interest	5,872,956,478	7.30%
Veer Palthe Voute NV	Investment Manager	Corporate Interest	5,872,956,478	7.30%

Notes:

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

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

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

Report of the Directors

CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as disclosed in note 28 to the financial statements, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

CONNECTED TRANSACTION

On 28th February, 2006, Rightop Asia Limited (a wholly-owned subsidiary of Lai Sun Garment (International) Limited ("LSG")), LSG, Goldthorpe Limited (a wholly-owned subsidiary of the Company) and the Company entered into a conditional sale and purchase agreement ("Agreement"), pursuant to which Rightop Asia Limited conditionally agreed to sell and Goldthorpe Limited conditionally agreed to purchase the entire issued share capital of Assetop Asia Limited together with the shareholder's loan at an aggregate consideration of HK$393,000,000. Of this, HK$226,000,000 was satisfied by the allotment and issue of 565,000,000 new shares of the Company at the issue price of HK$0.40 per share and HK$167,000,000 was satisfied by the issue of a promissory note. The promissory note is unsecured, bears interest at prevailing Hong Kong Dollar Prime Rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and is wholly repayable on 29th May, 2010.

The prinicipal asset of Assetop Asia Limited and its subsidiary is a property under development situated at Su Jia Xiang, Shanghai. Following completion of the transaction, a clear delineation of businesses between the LSG Group and the Group was achieved. The acquisition of the Shanghai property expands the land bank of the Company and further reinforces its operation in Shanghai.

Since LSG held an approximate 45.13% interest in the issued share capital of the Company as at 28th February, 2006, it was a substantial shareholder and a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transaction constituted a connected transaction for the Company under the Listing Rules. Further details are disclosed in the Company's circular dated 3rd May, 2006.

The transaction was approved by independent shareholders of the Company at an extraordinary general meeting held on 19th May, 2006 and was completed on 30th May, 2006.

Report of the Directors

DETAILS OF PROPERTIES

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

Location	Group interest	Stage of construction	Expected completion date	Expected use	Gross floor area
Eastern Place, 787 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, China	100%	Residential towers 7 & 8 construction work in progress	Residential towers 7 & 8 in late 2006	Residential/ commercial/ office	Total site area (residential towers 7 & 8 and remaining phases): 26,941 sq.m. Total gross floor area (residential towers 7 & 8 and remaining phases): approximately 154,000 sq.m.
Hai Zhu Plaza, Chang Di Main Road, Yuexiu District, Guangzhou, Guangdong Province, China	100%	Resettlement of original inhabitants in progress	2010	Commercial/ office	Total site area: 8,427 sq.m. Total gross floor area: approximately 104,000 sq.m.
Regents Park, 88 Huichuan Road, Changning District, Shanghai, China	95%	Phase II construction work in progress	Phase II in 2008	Residential/ commercial	Total site area (Phase II): approximately 11,670 sq.m. Total gross floor area (Phase II): approximately 72,000 sq.m.
Shanghai May Flower Plaza, Su Jia Xiang, Zhabei District, Shanghai, China	95%	Development under planning	2009	Residential/ commercial	Total site area: approximately 22,000 sq.m. Total gross floor area: approximately 133,000 sq.m.
A piece of land at Western District of Zhongshan, Guangdong Province, China	100%	Development under planning	In phases from 2008 to 2010	Residential/ commercial	Total site area: 236,648 sq.m. Total gross floor areas: approximately 354,972 sq.m.

Report of the Directors

DETAILS OF PROPERTIES (continued)

The principal investment properties of the Group are as follows:

Location	Group interest	Tenure	Use	Gross floor area
Commercial podium and certain office and service apartment units of Hong Kong Plaza, 282 & 283 Huaihaizhong Road, Luwan District, Shanghai, China	95%	The property is held for a term of 50 years, commencing on 16th September, 1992 and expiring on 15th September, 2042	Office/ shopping arcades/ service apartments	approximately 108,675 sq.m.
Certain units in the North Tower of Hong Kong Plaza, 282 & 283 Huaihaizhong Road, Luwan District, Shanghai, China	100%	The property is held for a term of 50 years, commencing on 16th September, 1992 and expiring on 15th September, 2042	Service apartments	approximately 19,673 sq.m.
May Flower Plaza, 68 Zhongshanwu Road, Yuexiu District, Guangzhou, Guangdong Province, China	77.5%	The property is held for a term of 40 years for commercial use and 50 years for other uses from the date of issue of the State-owned Land Use Right Certificate (14th October, 1997)	Shopping arcades/ office	approximately 50,654 sq.m.

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

Location	Group interest	Gross floor area
Certain residential units in Eastern Place, 787 Dongfeng East Road, Yuexiu District, Guangzhou, Guangdong Province, China	100%	697.72 sq.m.
Certain residential units in Regents Park, 88 Huichuan Road, Changning District, Shanghai, China	95%	5,413.69 sq.m.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 14 and 16 respectively, to the financial statements. Further details of the Group's investment properties are set out in this report under the 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 15 to the financial statements. Further details of the Group's properties under development are set out in this report under the heading "Details of Properties" above.

SHARE CAPITAL

Movements in the Company's authorised and issued share capital during the year are set out in note 30 to the financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31st July, 2006, 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$4,273,578,000 (2005: HK$3,088,464,000) after deducting a proposed final dividend amounted to HK$8,048,000 (2005: Nil) for the year. Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$5,291,000.

PRE-EMPTIVE RIGHTS

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

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31st July,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**703,352**	402,863	630,204	119,338	142,510
Profit/(loss) before tax	**244,294**	440,644	17,245	44,691	(136,653)
Tax	**(98,034)**	(122,817)	16,207	(16,246)	(7,666)
Profit/(loss) for the year	**146,260**	317,827	33,452	28,445	(144,319)
Attributable to:					
Equity holders of the Company	**132,745**	246,197	36,006	29,970	(142,995)
Minority interests	**13,515**	71,630	(2,554)	(1,525)	(1,324)
	146,260	317,827	33,452	28,445	(144,319)

Report of the Directors

SUMMARY OF FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	As at 31st July,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment and prepaid land lease payments	**672,054**	631,117	639,451	651,641	663,925
Investment properties	**3,189,300**	3,081,300	1,971,400	2,151,000	2,152,000
Properties under development	**1,937,211**	1,349,596	1,881,878	1,958,498	1,761,886
Goodwill/(negative goodwill)	**4,561**	—	(8,807)	(9,040)	—
Interests in associates	**770,917**	658,058	645,401	600,237	589,458
Interests in jointly-controlled entities	**—**	—	—	—	5,118
Available-for-sale investments	**13,464**	—	—	—	—
Long term investments	**—**	—	—	2,300	—
Pledged bank balances	**—**	—	10,262	—	—
Current assets	**1,414,223**	699,265	724,103	264,392	193,351
TOTAL ASSETS	**8,001,730**	6,419,336	5,863,688	5,619,028	5,365,738
Current liabilities	**(881,338)**	(785,953)	(435,009)	(313,336)	(395,388)
Long term rental deposits received	**(21,931)**	(23,257)	(14,147)	(12,666)	(10,735)
Non-current interest-bearing bank loans, secured	**(753,859)**	(732,538)	(1,093,593)	(1,074,362)	(829,445)
Promissory note	**(167,000)**	—	—	—	—
Advances from a substantial shareholder	**(45,542)**	(44,795)	—	—	(86,886)
Deferred tax liabilities	**(627,752)**	(431,030)	(299,394)	(358,826)	(346,683)
TOTAL LIABILITIES	**(2,497,422)**	(2,017,573)	(1,842,143)	(1,759,190)	(1,669,137)
	5,504,308	4,401,763	4,021,545	3,859,838	3,696,601
Minority interests	**(258,473)**	(219,162)	(160,028)	(162,589)	(122,244)
	5,245,835	4,182,601	3,861,517	3,697,249	3,574,357

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the Group's five largest customers was 3% of the Group's total turnover. During the year, the Group's purchases from its five largest suppliers accounted for approximately 44% of the Group's total purchases, while the largest supplier accounted for approximately 14% of the Group's total purchases for the year.

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

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

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

Pursuant to the covenants of the loans agreements dated 14th June, 2001 and 15th February, 2005, the Company and the Subsidiaries shall procure that (i) LSG and LSD shall together hold not less than 35% of the total issued share capital of the Company at all times throughout the terms of the facilities, (ii) LSG and/or LSD will remain as the single largest shareholder of the Company, and (iii) LSG will maintain management control of the Company.

The outstanding loan balances of these facilities at the balance sheet date amounted to approximately HK$615 million, with the last instalment repayment falling due in December 2007.

Report of the Directors

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

At the balance sheet date, the Group had amounts due from affiliated companies which in total exceeded 8% of the Group's total assets as at 31st July, 2006.

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

The total amounts due from the affiliated companies represented approximately 10% of the Group's total assets of HK$8,001,730,000 as at 31st July, 2006.

The proforma combined balance sheet of the affiliated companies as at 31st July, 2006 is as follows:

	HK$'000
Interests in joint venture	678,204
Investment properties	386,000
Properties under development	374,422
Fixed assets	604
Net current liabilities	(22,084)
Total assets less current liabilities	1,417,146
Amounts due to shareholders	(1,963,315)
Deferred tax liabilities	(33,756)
	(579,925)
Capital and reserves	
Issued capital	40,012
Reserves	(627,403)
	(587,391)
Minority interests	7,466
	(579,925)

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the financial year ended 31st July, 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31st July, 2006.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 36 to 39 of this report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming 2006 Annual General Meeting.

On behalf of the Board

Lam Kin Ngok, Peter
Chairman

Hong Kong
10th November, 2006

Corporate Governance Report

The Company is committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which came into effect on 1st January, 2005.

(1) CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the CG Code throughout the accounting period covered by this Annual Report save for the following deviations from code provisions A.4.1 and E.1.2:

Code Provision A.4.1

The non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Articles of Association of the Company.

Code Provision E.1.2

Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the Annual General Meeting of the Company held on 23rd December, 2005.

(2) DIRECTORS' SECURITIES TRANSACTIONS

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

(3) BOARD OF DIRECTORS

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

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

(3.2) The Board comprises eight executive Directors, namely, Mr. Lam Kin Ngok, Peter (Chairman), Mr. Lam Kin Ming (Deputy Chairman), Mr. Lam Kin Hong, Matthew (Executive Deputy Chairman), Mr. Lam Hau Yin, Lester (Chief Executive Officer), Mr. Lee Po On, Mr. Tam Kin Man, Kraven, Mr. Lau Shu Yan, Julius and Madam U Po Chu; two non-executive Directors, namely, Mr. Lim Ming Yan and Mr. Lui Chong Chee and three independent non-executive Directors, namely, Mr. Wong Yee Sui, Andrew, Mr. Lam Bing Kwan and Mr. Ku Moon Lun.

Corporate Governance Report

(3) BOARD OF DIRECTORS (continued)

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

Directors	Board Meetings Held	Board Meetings Attended
Executive Directors		
Lam Kin Ngok, Peter *(Chairman)*	4	0
Lam Kin Ming *(Deputy Chairman)*	4	4
Lam Kin Hong, Matthew *(Executive Deputy Chairman)*	4	2
Lam Hau Yin, Lester *(Chief Executive Officer)*	4	4
Lee Po On	4	3
U Po Chu	4	0
Lau Shu Yan, Julius	4	3
Tam Kin Man, Kraven	4	3
Ho Wing Tim*	3	0
Non-Executive Directors		
Lim Ming Yan	1	1
Lui Chong Chee	1	1
Lam Kin Ko, Stewart *	4	2
Independent Non-Executive Directors		
Wong Yee Sui, Andrew	4	4
Lam Bing Kwan	4	3
Ku Moon Lun	1	1
Wan Yee Hwa, Edward*	3	3
Mui Ying Chun, Robert*	0	0

* *already resigned*

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

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

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

Corporate Governance Report

(4) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

During the year under review, Mr. Lam Kin Ngok, Peter was the Chairman of the Company while Mr. Lam Hau Yin, Lester acted as the Chief Executive Officer of the Company.

(5) NON-EXECUTIVE DIRECTORS

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

(6) REMUNERATION COMMITTEE

(6.1) The Board established a Remuneration Committee on 18th November, 2005, which comprises three independent non-executive directors, namely, Messrs. Mr. Wan Yee Hwa, Edward (Chairman), Mr. Lam Bing Kwan and Mr. Wong Yee Sui, Andrew and an executive director, Mr. Lee Po On. Mr. Wan Yee Hwa, Edward resigned on 21st June, 2006 and Messrs. Lui Chong Chee and Ku Moon Lun have been appointed members of the Committee.

(6.2) The Remuneration Committee has been charged with the responsibility to recommend to the Board, in consultation with the Chairman of the Board and/or the Chief Executive Officer, on an appropriate policy and framework for all aspects of remuneration of all directors and senior management, including but not limited to directors' fees, salaries, allowances, bonuses, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Company is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Company successfully.

(6.3) The Remuneration Committee did not hold any meetings during the year but the Committee will meet to discuss remuneration-related matters following recent changes to the composition of the Committee.

(7) NOMINATION OF DIRECTORS

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

(8) AUDITORS' REMUNERATION

The auditors of the Company, Ernst & Young, received audit fees amounting to HK$1,380,000 for the year under review. The Company has also paid fees amounting to HK$178,000 to the auditors for non-audit service assignments during the year.

Corporate Governance Report

(9) AUDIT COMMITTEE

(9.1) The board established an Audit Committee which currently comprises the two independent non-executive directors, namely, Messrs. Wong Yee Sui, Andrew (Chairman), Lam Bing Kwan and a non-executive director, Mr. Lim Ming Yan. Mr. Wan Yee Hwa, Edward (a former member of the Committee) resigned on 21st June, 2006 and Mr. Lim Ming Yan was appointed on the same date.

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

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

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

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

(10) FINANCIAL REPORTING

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

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

(11) INTERNAL CONTROL

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

Report of the Auditors

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 41 to 101 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st July, 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
10th November, 2006

Consolidated Income Statement

Year ended 31st July, 2006

	Notes	2006 HK$'000	2005 HK$'000
TURNOVER	5	**703,352**	402,863
Cost of sales		**(394,679)**	(241,256)
Gross profit		**308,673**	161,607
Other income and gain	5	**76,219**	62,649
Selling expenses		**(28,284)**	(31,085)
Administrative expenses		**(105,625)**	(87,619)
Other operating expenses, net		**(15,279)**	(24,573)
Fair value gain on investment properties	16	**58,828**	435,073
PROFIT FROM OPERATING ACTIVITIES	7	**294,532**	516,052
Finance costs	6	**(60,320)**	(42,470)
Share of profit of an associate		**3,907**	3,015
Write-back of provision/(provision) for amounts due from associates		**6,175**	(35,953)
PROFIT BEFORE TAX		**244,294**	440,644
Tax	10	**(98,034)**	(122,817)
PROFIT FOR THE YEAR		**146,260**	317,827
ATTRIBUTABLE TO:			
Equity holders of the Company	11	**132,745**	246,197
Minority interests		**13,515**	71,630
		146,260	317,827
DIVIDEND	12		
Proposed final		**8,048**	—
EARNINGS PER SHARE	13		
Basic		**2.15 cents**	4.19 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31st July, 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**666,683**	625,686
Properties under development	15	**1,937,211**	1,349,596
Investment properties	16	**3,189,300**	3,081,300
Prepaid land lease payments	17	**5,371**	5,431
Goodwill	18	**4,561**	—
Interests in associates	20	**770,917**	658,058
Available-for-sale investments	21	**13,464**	—
Total non-current assets		**6,587,507**	5,720,071
CURRENT ASSETS			
Properties under development	15	**186,243**	53,284
Completed properties for sale	22	**46,672**	8,683
Debtors, deposits and prepayments	23	**62,133**	120,397
Tax recoverable		**12,312**	9,140
Pledged time deposits and bank balances	24	**207,738**	15,241
Cash and cash equivalents	24	**899,125**	492,520
Total current assets		**1,414,223**	699,265
CURRENT LIABILITIES			
Creditors and accruals	25	**405,006**	255,715
Deposits received and deferred income		**317,161**	288,571
Rental deposits received		**13,858**	10,809
Interest-bearing bank loans, secured	26	**89,723**	218,527
Tax payable		**55,590**	12,331
Total current liabilities		**881,338**	785,953
NET CURRENT ASSETS/(LIABILITIES)		**532,885**	(86,688)

Consolidated Balance Sheet

31st July, 2006

	Notes	2006 HK$'000	2005 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,120,392**	5,633,383
NON-CURRENT LIABILITIES			
Long term rental deposits received		**(21,931)**	(23,257)
Interest-bearing bank loans, secured	26	**(753,859)**	(732,538)
Promissory note	27	**(167,000)**	—
Advances from a substantial shareholder	28	**(45,542)**	(44,795)
Deferred tax liabilities	29	**(627,752)**	(431,030)
Total non-current liabilities		**(1,616,084)**	(1,231,620)
		5,504,308	4,401,763
EQUITY			
Equity attributable to equity holders of the Company:			
Issued capital	30	**804,796**	587,296
Share premium account		**3,876,668**	3,224,676
Investment revaluation reserve		**(1,456)**	—
Exchange fluctuation reserve		**145,071**	82,618
Capital reserve		**(457)**	(457)
Retained earnings		**413,165**	288,468
Proposed final dividend	12	**8,048**	—
		5,245,835	4,182,601
Minority interests		**258,473**	219,162
		5,504,308	4,401,763

Lam Kin Ngok, Peter
Director

Lam Hau Yin, Lester
Director

Consolidated Statement of Changes in Equity

Year ended 31st July, 2006

		Attributable to equity holders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Proposed final dividend HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st August, 2004		587,296	3,224,676	—	16,538	(457)	42,271	—	3,870,324	160,028	4,030,352
Exchange realignment and total income and expense recognised directly in equity of:											
Subsidiaries		—	—	—	64,094	—	—	—	64,094	3,613	67,707
Associates		—	—	—	1,986	—	—	—	1,986	—	1,986
Profit for the year		—	—	—	—	—	246,197	—	246,197	71,630	317,827
Total income and expense for the year		—	—	—	66,080	—	246,197	—	312,277	75,243	387,520
Repayment to minority interests		—	—	—	—	—	—	—	—	(16,109)	(16,109)
At 31st July, 2005 and 1st August, 2005		587,296	3,224,676	—	82,618	(457)	288,468	—	4,182,601	219,162	4,401,763
Change in fair value of available-for-sale investments		—	—	(1,456)	—	—	—	—	(1,456)	—	(1,456)
Exchange realignment:											
Subsidiaries		—	—	—	60,893	—	—	—	60,893	3,833	64,726
Associates		—	—	—	3,511	—	—	—	3,511	—	3,511
Total income and expense recognised directly in equity		—	—	(1,456)	64,404	—	—	—	62,948	3,833	66,781
Profit for the year		—	—	—	—	—	132,745	—	132,745	13,515	146,260
Total income and expense for the year		—	—	(1,456)	64,404	—	132,745	—	195,693	17,348	213,041
Acquisition of subsidiaries	33	—	—	—	—	—	—	—	—	21,963	21,963
Release of reserve upon disposal of interests in subsidiaries	34	—	—	—	(1,951)	—	—	—	(1,951)	—	(1,951)
Issue of shares	30	217,500	652,500	—	—	—	—	—	870,000	—	870,000
Share issue expenses	30	—	(508)	—	—	—	—	—	(508)	—	(508)
Proposed final dividend	12	—	—	—	—	—	(8,048)	8,048	—	—	—
At 31st July, 2006		804,796	3,876,668	(1,456)	145,071	(457)	413,165	8,048	5,245,835	258,473	5,504,308

Consolidated Cash Flow Statement

Year ended 31st July, 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**244,294**	440,644
Adjustments for:			
Interest income	5	**(8,054)**	(23,324)
Gain on disposal of interests in subsidiaries	5	**(14,926)**	—
Fair value gain on investment properties		**(58,828)**	(435,073)
Depreciation	7	**21,052**	19,222
Loss on disposals of property, plant and equipment	7	**1,979**	—
Recognition of prepaid land lease payments	7	**150**	147
Provision for bad and doubtful debts	7	**1,869**	1,465
Finance costs	6	**60,320**	42,470
Share of profit of an associate		**(3,907)**	(3,015)
Provision/(write-back of provision) for amounts due from associates		**(6,175)**	35,953
Operating profit before working capital changes		**237,774**	78,489
Decrease/(increase) in completed properties for sale		**(37,989)**	40,153
Decrease/(increase) in debtors, deposits and prepayments		**63,792**	(16,007)
Increase in creditors and accruals, deposits received and deferred income, and short term rental deposits received		**128,090**	254,697
Increase/(decrease) in long term rental deposits received		**(1,326)**	9,110
Cash generated from operations		**390,341**	366,442
Mainland China taxes paid, net		**(30,292)**	(9,400)
Net cash inflow from operating activities		**360,049**	357,042
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,989**	1,302
Purchases of items of property, plant and equipment		**(60,184)**	(7,246)
Proceeds from disposal of items of property, plant and equipment		**35**	237
Additions to properties under development		**(245,974)**	(90,871)
Purchase of available-for-sale investments		**(14,920)**	—
Acquisition of subsidiaries	33	**833**	—
Disposal of interests in subsidiaries	34	**98,575**	—
Advances of loans to associates		**(23,932)**	(21,587)
Decrease/(increase) in pledged time deposits		**1,918**	(1,918)
Decrease/(increase) in pledged bank balances		**(194,415)**	3,810
Net cash outflow from investing activities		**(430,075)**	(116,273)

Consolidated Cash Flow Statement

Year ended 31st July, 2006

	Notes	**2006 HK$'000**	2005 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Gross proceeds from issue of shares	30	**644,000**	—
Share issue expenses	30	**(508)**	—
New bank loans		**93,259**	249,377
Repayment of bank loans		**(205,592)**	(487,865)
New advances from a substantial shareholder		**—**	98,730
Repayment of advances to a substantial shareholder		**—**	(65,259)
Repayment to minority interests		**—**	(16,109)
Interest paid		**(62,062)**	(70,315)
Net cash inflow/(outflow) from financing activities		**469,097**	(291,441)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**399,071**	(50,672)
Cash and cash equivalents at beginning of year		**492,520**	548,730
Effect of foreign exchange rate changes, net		**7,534**	(5,538)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**899,125**	492,520
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**244,093**	459,223
Non-pledged time deposits with original maturity of less than three months when acquired	24	**655,032**	33,297
		899,125	492,520

Balance Sheet

31st July, 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	**4,464,586**	3,634,251
CURRENT ASSETS			
Deposits paid	23	**263**	46,168
Cash and cash equivalents	24	**805,587**	7,668
Total current assets		**805,850**	53,836
CURRENT LIABILITIES			
Creditors and accruals	25	**17,014**	12,327
NET CURRENT ASSETS		**788,836**	41,509
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,253,422**	3,675,760
NON-CURRENT LIABILITY			
Promissory note	27	**(167,000)**	—
		5,086,422	3,675,760
EQUITY			
Issued capital	30	**804,796**	587,296
Reserves	32(b)	**4,273,578**	3,088,464
Proposed final dividend	12	**8,048**	—
		5,086,422	3,675,760

Lam Kin Ngok, Peter
Director

Lam Hau Yin, Lester
Director

Notes to Financial Statements

31st July, 2006

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

Notes to Financial Statements

31st July, 2006

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

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

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

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st July, 2006. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses. The income and expenses of the subsidiaries are included in the consolidated financial statements until the date on which the Company ceases to control the subsidiaries.

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

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

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

A joint venture is treated as:

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

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

(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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", if the Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

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

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

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

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

Notes to Financial Statements

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

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

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

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

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

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

Goodwill previously eliminated against the consolidated reserves

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

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

Impairment of assets

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

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

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group;

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

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

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

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

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

Properties under development

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

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

Completed properties for sale

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

Operating leases

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases (continued)

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

Investments and other financial assets

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

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories under HKAS39. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Interest-bearing loans and borrowings

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

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

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

Derecognition of financial liabilities

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Revenue recognition

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

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

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

(d) service fee income is recognised when services have been rendered;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

Paid leave carried forward

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

Pension schemes

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

Notes to Financial Statements

31st July, 2006

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes (continued)

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

Borrowing costs

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

Dividends

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

Foreign currencies

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

(i) Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

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

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

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

(iii) Impairment of assets

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

Notes to Financial Statements

31st July, 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(iv) Deferred tax assets

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

Estimation uncertainty

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

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

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

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

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

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

Notes to Financial Statements

31st July, 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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

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

(iv) Impairment of assets or goodwill

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

(v) Estimation of fair values of available-for-sale instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for unlisted equity instruments and derivatives that are linked to and must be settled by delivery of unquoted equity instruments, direct market prices are not available. The fair value estimate of such instruments is the estimated amount that the Group would receive or pay on the derecognition of the instruments at the balance sheet date, taking into account the current market conditions and the current credit worthiness of the counterparties. In particular, the fair value estimate is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of value realisable in a future sales. Changes in assumption used or market conditions could significantly affect these estimates and the resulting fair values. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the instrument shall be measured at cost.

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

4. SEGMENT INFORMATION (continued)

Business segments

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

Group

	Property development		Property investment		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**505,731**	247,421	**197,621**	155,442	**703,352**	402,863
Other revenue	**2,315**	172	**46,898**	39,113	**49,213**	39,285
Total	**508,046**	247,593	**244,519**	194,555	**752,565**	442,148
Segment results	**124,398**	1,239	**182,261**	536,420	**306,659**	537,659
Interest income and unallocated gains					**27,006**	23,364
Unallocated expenses					**(39,133)**	(44,971)
Profit from operating activities					**294,532**	516,052
Finance costs					**(60,320)**	(42,470)
Share of profit of an associate	**—**	—	**3,907**	3,015	**3,907**	3,015
Write-back of provision/(provision) for amounts due from associates	**—**	—	**6,175**	(35,953)	**6,175**	(35,953)
Profit before tax					**244,294**	440,644
Tax					**(98,034)**	(122,817)
Profit for the year					**146,260**	317,827
Assets and liabilities						
Segment assets	**1,272,567**	1,097,652	**5,046,841**	4,570,213	**6,319,408**	5,667,865
Interests in associates	**—**	—	**770,917**	658,058	**770,917**	658,058
Unallocated assets					**911,405**	93,413
Total assets					**8,001,730**	6,419,336
Segment liabilities	**435,505**	313,997	**132,623**	173,233	**568,128**	487,230
Unallocated liabilities					**1,929,294**	1,530,343
Total liabilities					**2,497,422**	2,017,573
Other segment information						
Depreciation	**1,215**	999	**18,762**	17,679	**19,977**	18,678
Capital expenditure	**343,822**	298,861	**65,933**	173,596	**409,755**	472,457
Fair value gain on investment properties	**—**	—	**58,828**	435,073	**58,828**	435,073

Notes to Financial Statements

31st July, 2006

5. TURNOVER, OTHER INCOME AND GAIN

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

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

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Turnover:			
Sale of properties		**505,731**	247,421
Rental income from service apartments and investment properties		**197,621**	155,442
		703,352	402,863
Other income and gain:			
Management fee income		**43,009**	31,553
Interest income from:			
Bank deposits		**7,904**	1,302
An associate		**150**	22,022
Gain on disposal of interests in subsidiaries	34	**14,926**	—
Others		**10,230**	7,772
		76,219	62,649

6. FINANCE COSTS

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Interest on:			
Bank loans wholly repayable within five years		**57,619**	53,700
Bank loan repayable beyond five years		**692**	—
Loans from minority interests		**—**	11,091
Advances from a substantial shareholder		**—**	8
Promissory note		**2,306**	—
Bank charges		**2,915**	3,594
		63,532	68,393
Less: Interest capitalised in properties under development	15	**(3,212)**	(25,923)
Total finance costs		**60,320**	42,470

Notes to Financial Statements

31st July, 2006

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Cost of sales of completed properties held for sale		**352,947**	14,505
Cost of pre-sale of properties under development		**—**	203,525
Outgoings in respect of rental income		**41,732**	23,226
Total cost of sales		**394,679**	241,256
Depreciation #	14	**21,052**	19,222
Recognition of prepaid land lease payments		**7,133**	5,230
Capitalised in properties under development	15	**(6,983)**	(5,083)
	17	**150**	147
Minimum lease payments under operating leases in respect of land and buildings		**2,364**	1,484
Auditors' remuneration		**1,380**	1,300
Employee benefits expense (including directors' remuneration — note 8):			
Wages and salaries		**49,072**	53,700
Pension scheme contributions *		**517**	960
		49,589	54,660
Capitalised in properties under development		**(20,480)**	(30,870)
		29,109	23,790
Foreign exchange gain **		**(6,524)**	(9,373)
Guaranteed service apartment rental returns		**3,220**	3,007
Provision for bad and doubtful debts **		**1,869**	1,465
Loss on disposals of property, plant and equipment		**1,979**	—

\# Depreciation charge of HK$14,572,000 (2005: HK$15,304,000) for service apartments is included in "Other operating expenses, net" on the face of the consolidated income statement.

* At 31st July, 2006, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in future years (2005: Nil).

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

Notes to Financial Statements

31st July, 2006

8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**589**	583
Other emoluments:		
Salaries, allowances and benefits in kind	**10,445**	21,320
Pension scheme contributions	**91**	383
	10,536	21,703
	11,125	22,286
Capitalised in properties under development	**(6,260)**	(15,442)
	4,865	6,844

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	HK$'000
Wong Yee Sui, Andrew	**60**	70
Lam Bing Kwan	**60**	70
Mui Ying Chun, Robert	**10**	52
Wan Yee Hwa, Edward	**45**	—
Ku Moon Lun	—	—
	175	192

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

Notes to Financial Statements

31st July, 2006

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006				
Executive directors:				
Lam Kin Ngok, Peter	—	2,000	—	2,000
Lam Kin Ming	—	1,560	—	1,560
Lam Kin Hong, Matthew	—	1,630	74	1,704
Lam Hau Yin, Lester	—	350	—	350
Ho Wing Tim	95	320	5	420
U Po Chu	—	3,697	—	3,697
Lee Po On	103	—	—	103
Lau Shu Yan, Julius	—	—	—	—
Tam Kin Man, Kraven	—	—	—	—
	198	9,557	79	9,834
Non-executive directors:				
Lam Kin Ko, Stewart	216	888	12	1,116
Lim Ming Yan	—	—	—	—
Lui Chong Chee	—	—	—	—
	216	888	12	1,116
Total	414	10,445	91	10,950

Notes to Financial Statements

31st July, 2006

8. DIRECTORS' REMUNERATION (continued)

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

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005				
Executive directors:				
Lam Kin Ngok, Peter	—	2,000	—	2,000
Lam Kin Ming	—	4,160	—	4,160
Lam Kin Hong, Matthew	—	5,306	194	5,500
Lam Hau Yin, Lester	—	264	—	264
Ho Wing Tim	—	3,870	177	4,047
Lee Po On	120	—	—	120
U Po Chu	—	4,004	—	4,004
Lau Shu Yan, Julius	—	—	—	—
Tam Kin Man, Kraven	—	—	—	—
Lim Por Yen	—	—	—	—
Yew Yat Ming	—	—	—	—
	120	19,604	371	20,095
Non-executive directors:				
Lam Kin Ko, Stewart	216	1,716	12	1,944
Chiu Wai	—	—	—	—
Shiu Kai Wah	—	—	—	—
Siu Fai Wing	55	—	—	55
Yu Po Kwan	—	—	—	—
	271	1,716	12	1,999
Total	391	21,320	383	22,094

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

Notes to Financial Statements

31st July, 2006

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one non-director, highest paid employee for the prior year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	—	3,764
Pension scheme contributions	—	168
	—	3,932
Capitalised in properties under development	—	(2,807)
	—	1,125

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the places in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	HK$'000
Current — Mainland China		
Charge for the year	**67,092**	7,860
Under/(over) provision in prior years	**2,443**	(13,596)
Deferred (note 29)	**28,499**	128,553
Total tax charge for the year	**98,034**	122,817

Notes to Financial Statements

31st July, 2006

10. TAX (continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**244,294**	440,644
Tax at the statutory tax rate	**80,617**	145,413
Adjustments for tax rates for other jurisdictions	**3,649**	1,117
Adjustments in respect of current tax of previous periods	**2,443**	(13,596)
Profits and losses attributable to an associate	**(1,289)**	(995)
Income not subject to tax	**(10,562)**	(27,205)
Expenses not deductible for tax	**12,824**	20,146
Tax losses utilised from previous periods	**—**	(10,518)
Tax losses not recognised	**10,352**	8,455
Tax charge at the Group's effective rate	**98,034**	122,817

Tax indemnity

In connection with the listing of the Company on The Stock Exchange of Hong Kong Limited (currently on the Main Board) (the "Listing"), tax indemnity deeds were signed on 12th November, 1997, pursuant to which Lai Sun Development Company Limited ("LSD") has undertaken to indemnify the Group in respect of certain potential Mainland China income taxes and 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 (currently known as "Knight Frank Petty Limited"), independent professionally qualified valuers, as at 31st October, 1997 (the "Valuation") and (ii) the aggregate costs of such Property Interests incurred up to 31st October, 1997 together with the amount of unpaid land costs, unpaid land lease payments and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

Notes to Financial Statements

10. TAX (continued)

Tax indemnity (continued)

The indemnity deeds assume that the Property Interests are disposed of at the value attributed to them in the Valuation, computed by reference to the rates and legislation governing Mainland China income tax and LAT prevailing at the time of the Valuation. The indemnities given by LSD do not cover (i) new properties acquired by the Group subsequent to the Listing; (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of the Group as set out in the Company's prospectus dated 18th November, 1997. The Group had no LAT payable in respect of the Property Interests during the year. No income tax payable by the Group was indemnifiable by LSD during the year.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to equity holders of the Company for the year ended 31st July, 2006 dealt with in the financial statements of the Company, was HK$541,170,000 (2005: HK$80,823,000) (note 32(b)).

12. DIVIDEND

	2006	2005
	HK$'000	HK$'000
Proposed final — 0.1 HK cent (2005: Nil) per ordinary share	**8,048**	—

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

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of HK$132,745,000 (2005: HK$246,197,000), and the weighted average number of 6,173,381,136 (2005: 5,872,956,478) ordinary shares in issue during the year.

The diluted earnings per share amounts for the years ended 31st July, 2006 and 2005 have not been disclosed as no diluting event existed during these years.

Notes to Financial Statements

31st July, 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Service apartments HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipments HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
Cost:							
At 1st August, 2004	49,120	684,319	104	19,031	5,978	1,784	760,336
Additions	—	—	4,350	973	1,670	253	7,246
Disposals	—	—	—	(108)	(280)	(15)	(403)
Exchange realignment	862	3,790	—	325	66	22	5,065
At 31st July, 2005 and 1st August, 2005	49,982	688,109	4,454	20,221	7,434	2,044	772,244
Additions	45,904	—	10,811	1,626	960	883	60,184
Disposals	—	—	(104)	(4,240)	—	(52)	(4,396)
Acquisition of subsidiaries (note 33)	—	—	753	735	—	304	1,792
Exchange realignment	833	3,554	73	329	78	23	4,890
At 31st July, 2006	96,719	691,663	15,987	18,671	8,472	3,202	834,714
Accumulated depreciation:							
At 1st August, 2004	4,093	105,903	37	12,792	2,249	1,389	126,463
Depreciation provided during the year (note 7)	1,363	15,304	21	1,407	1,001	126	19,222
Disposals	—	—	—	(57)	(94)	(15)	(166)
Exchange realignment	97	649	—	245	30	18	1,039
At 31st July, 2005 and 1st August, 2005	5,553	121,856	58	14,387	3,186	1,518	146,558
Depreciation provided during the year (note 7)	1,854	14,572	1,545	1,662	1,161	258	21,052
Disposals	—	—	(62)	(2,278)	—	(42)	(2,382)
Acquisition of subsidiaries (note 33)	—	—	753	710	—	251	1,714
Exchange realignment	110	653	16	257	36	17	1,089
At 31st July, 2006	7,517	137,081	2,310	14,738	4,383	2,002	168,031
Net book value:							
At 31st July, 2006	89,202	554,582	13,677	3,933	4,089	1,200	666,683
At 31st July, 2005	44,429	566,253	4,396	5,834	4,248	526	625,686

The Group's leasehold buildings of HK$43,757,000 (2005: HK$44,429,000) and service apartments of HK$554,582,000 (2005: HK566,253,000) as at 31st July, 2006 are situated in Mainland China and are held under medium-term leases. The remaining leasehold building of HK$45,445,000 (2005: Nil) is situated in Hong Kong and are held under long lease.

At 31st July, 2006, certain leasehold building and service apartments with carrying values of HK$45,445,000 (2005: Nil) and HK$554,582,000 (2005: HK$566,253,000) respectively were pledged to banks to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

Notes to Financial Statements

31st July, 2006

15. PROPERTIES UNDER DEVELOPMENT

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Carrying amount at 1st August		**1,402,880**	1,881,878
Interest capitalised	6	**3,212**	25,923
Other additions		**396,542**	466,187
Transfer to completed properties for sale		**(150,568)**	—
Transfer to investment properties	16	**—**	(632,344)
Acquisition of subsidiaries	33	**577,000**	—
Disposal of interests in subsidiaries	34	**(144,655)**	—
Attributable profits on pre-sale of development projects in progress		**—**	13,588
Sale deposits and instalments received		**—**	(388,904)
Exchange realignment		**39,043**	36,552
Carrying amount at 31st July		**2,123,454**	1,402,880
Portion classified as current assets		**(186,243)**	(53,284)
Non-current portion		**1,937,211**	1,349,596

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

		Group	
		2006	2005
	Note	**HK$'000**	HK$'000
Carrying amount at 1st August		**305,568**	196,600
Additions		**32,828**	110,688
Recognised during the year	7	**(6,983)**	(5,083)
Acquisition of subsidiaries		**11,283**	—
Disposal of interests in subsidiaries		**(20,386)**	—
Transfer to completed properties for sale		**(9,266)**	—
Exchange realignment		**5,007**	3,363
Carrying amount at 31st July		**318,051**	305,568

Notes to Financial Statements

31st July, 2006

15. PROPERTIES UNDER DEVELOPMENT (continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Long leases	**1,417,244**	769,457
Medium-term leases	**706,210**	633,423
	2,123,454	1,402,880

At 31st July, 2006, certain properties under development with an aggregate carrying value of HK$475,970,000 (2005: HK$443,678,000) were pledged to banks to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

16. INVESTMENT PROPERTIES

		Group	
		2006	2005
	Note	**HK$'000**	HK$'000
Carrying amount at 1st August		**3,081,300**	1,971,400
Transfer from properties under development	15	**—**	632,344
Net gain from a fair value adjustment		**58,828**	435,073
Exchange realignment		**49,172**	42,483
Carrying amount at 31st July		**3,189,300**	3,081,300

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

	Group	
	2006	2005
	HK$'000	HK$'000
Long leases	**9,300**	8,300
Medium-term leases	**3,180,000**	3,073,000
	3,189,300	3,081,300

16. INVESTMENT PROPERTIES (continued)

At 31st July, 2006, the investment properties were revalued by Knight Frank Petty Limited, independent professionally qualified valuers, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

At 31st July, 2006, certain investment properties with an aggregate carrying value of HK$3,180,000,000 (2005: HK$3,073,000,000) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

17. PREPAID LAND LEASE PAYMENTS

		Group	
		2006	2005
	Note	**HK$'000**	HK$'000
Carrying amount at 1st August		**5,431**	5,578
Recognised during the year	7	**(150)**	(147)
Exchange realignment		**90**	—
Carrying amount at 31st July		**5,371**	5,431

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

18. GOODWILL

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

	Group	
	2006	2005
	HK$'000	HK$'000
Cost and carrying amount:		
Acquisition of subsidiaries and at end of year *(note 33)*	**4,561**	—

Impairment testing of goodwill

As at 31st July, 2006, the carrying amount of goodwill relates to the acquisition of a 100% interest in Assetop Asia Limited and its subsidiaries, principal asset of which is a 95% interest in a property under development. The recoverable amount of the underlying property under development is determined based on its estimated fair value at the balance sheet date.

Details of the acquisition are included in note 33 to the financial statements.

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31st July, 2006

19. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**144,270**	144,270
Due from subsidiaries	**4,347,543**	3,496,964
Due to subsidiaries	**(27,227)**	(6,983)
	4,464,586	3,634,251

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$182,643,000 (2005: HK$277,151,000) due from a subsidiary which bears interest at LIBOR plus 3% per annum (2005: LIBOR plus 3% per annum). The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Assetop Asia Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Canvex Limited	Hong Kong	HK$2	—	100	Property investment
Goldthorpe Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Grand Wealth Limited	Hong Kong	HK$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK$2	—	77.5	Investment holding
Guangzhou Grand Wealth Properties Ltd.**	Mainland China	HK$138,000,000*	—	100	Property development and investment
Guangzhou Guang Bird Property Development Ltd.**	Mainland China	US$22,160,000*	—	100	Property development and investment

Notes to Financial Statements

31st July, 2006

19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Jieli Real Estate Development Co., Ltd.**	Mainland China	HK$168,000,000*	—	77.5	Property investment
Lai Fung Company Limited	Hong Kong	HK$20	100	—	Investment holding
Nicebird Company Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai Hu Xin Real Estate Development Co., Ltd.#	Mainland China	US$6,000,000*	—	95	Property development and investment
Shanghai Li Xing Real Estate Development Co., Ltd.#	Mainland China	US$36,000,000*	—	95	Property investment
Sunlite Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Topsider International Limited	British Virgin Islands/ Hong Kong	US$1	100	—	Investment holding
Wide Angle Development Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai HKP Property Management Limited#	Mainland China	US$150,000*	—	100	Property management
Shanghai Wa Yee Real Estate Development Co., Ltd.#	Mainland China	US$10,000,000*	70	25	Property development and investment
Good Strategy Limited	British Virgin Islands/ Hong Kong	US$1	—	100	Property investment
Manful Concept Limited	Hong Kong	HK$2	—	100	Investment holding
Zhongshan Bao Li Properties Development Co., Ltd.@	Mainland China	HK$30,000,000*	—	100	Property development and investment

Notes to Financial Statements

31st July, 2006

19. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Silver Prospect Limited	Hong Kong	HK$1	—	100	Investment holding
South Hill Limited	Hong Kong	HK$1	—	100	Property investment
Maniway Hong Kong Limited	Hong Kong	HK$2	—	100	Investment holding

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

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

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

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

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

At 31st July, 2006, shares in certain subsidiaries were pledged to secure banking facilities granted to the Group (note 26).

20. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	2005 HK$'000
Share of net assets, other than goodwill	**42,257**	29,396
Due from associates	**814,631**	720,808
	856,888	750,204
Provision for impairment	**(85,971)**	(92,146)
	770,917	658,058

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20. INTERESTS IN ASSOCIATES (continued)

Except for an amount of HK$10,726,000 (2005: HK$298,531,000) due from an associate which bears interest of 5.58% per annum (2005: Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong plus 2% per annum), the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these advances approximate to their fair values.

Included in the above balance of "Share of net assets, other than goodwill" was interest capitalised of HK$72,095,000 (2005: HK$72,095,000) on borrowings previously obtained for investments in associates engaged in property development.

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

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

Name	Business structure	Place of incorporation/ registration and operations	Class of shares held	Percentage of ownership interest attributable to the Group 2005	2006	Principal activities
Besto Investments Limited#	Corporate	Hong Kong	Ordinary	25	**25**	Investment holding
Hankey Development Limited#	Corporate	Hong Kong	Ordinary	50	**50**	Investment holding
Beautiwin Limited**	Corporate	Hong Kong	Ordinary	—	**50**	Investment holding
Shanghai Hankey Real Estate Development Co., Ltd.#	Corporate	Mainland China	—*	48.3	**48.3**	Property investment
Shanghai Zhabei Plaza Real Estate Development Co., Ltd.#	Corporate	Mainland China	—*	49.5	**49.5**	Property development and investment
Guangzhou Tianhe Baitao Culture and Entertainment Square Co., Ltd.#	Corporate	Mainland China	—*	25	**25**	Property investment
Guangzhou Besto Real Estate Development Co., Ltd.#	Corporate	Mainland China	—*	25	**25**	Property investment
Guangzhou New Wave Culture Plaza#	Corporate	Mainland China	—*	25	**25**	Property development and investment
Guangzhou Beautiwin Real Estate Development Co., Ltd.**	Corporate	Mainland China	—*	—	**50**	Property development and investment

Notes to Financial Statements

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20. INTERESTS IN ASSOCIATES (continued)

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

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

** These companies were wholly-owned subsidiaries of the Group as at 31st July, 2005. During the year, the Group disposed of 50% equity interests in these companies.

On 21st November, 2005, the Company, CapitaLand China Holdings Pte Ltd ("CCH"), Welitron Profits Limited ("Welitron") (as Vendor), a wholly-owned subsidiary of the Company and Hua Xiong Holdings Pte. Ltd. ("Hua Xiong") (as Purchaser), a wholly-owned subsidiary of CCH entered into a conditional sale and purchase agreement in relation to the 50% equity interest in and shareholder's loan Beautiwin Limited ("Beautiwin"), a then wholly-owned subsidiary of Welitron, owed to Welitron for a consideration (the "Consideration") of RMB102,757,000 (approximately HK$98,575,000) (the "Transaction"). The Transaction constituted a major transaction for the Company and was subject to the approval of the shareholders of the Company. Pursuant to an extraordinary general meeting of the Company held on 26th January, 2006, the Transaction was approved by the shareholders of the Company and the Transaction was completed on 15th February, 2006 (the "Completion Date").

The Transaction resulted in the deconsolidation of the assets and liabilities of Beautiwin in the consolidated accounts of the Company. The asset value of HK$145 million and the other liabilities of Beautiwin ceased to be consolidated in the Company's consolidated accounts upon the Completion Date. The remaining 50% interest in Beautiwin is equity accounted for as an associate of the Company.

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

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

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

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

20. INTERESTS IN ASSOCIATES (continued)

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

(a) an amount equivalent to the Consideration together with interest accrued thereon at the prevailing People's Bank of China interest rate for Renminbi; and

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Assets	**1,462,147**	1,195,798
Liabilities	**(2,042,451)**	(1,828,537)
Turnover	**27,461**	18,595
Profit/(loss)	**17,495**	(147,728)
Contingent liabilities of associates	**—** #	4,900

\# At the balance sheet date, one of the associates had certain contingent liabilities in relation to the obligation to pay additional land costs for a piece of land. Such obligation is not recognised in the financial statements of such associate at the balance sheet date because the amount of this obligation cannot be measured with sufficient reliability.

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at fair value	**13,464**	—

The fair value of unlisted available-for-sale investments is the estimated amount that the Group would receive or pay on the derecognition of investments at the balance sheet date, taking into account the current market conditions and the current credit worthiness of the counterparties. The directors believe that the estimated fair values resulting from this valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated reserve, are reasonable, and that they are the most appropriate values at the balance sheet date.

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22. COMPLETED PROPERTIES FOR SALE

The carrying amount of completed properties for sale carried at fair value less costs to be incurred for disposal was HK$2,569,000 (2005: HK$5,924,000) at the balance sheet date.

At 31st July, 2006, certain completed properties for sale with an aggregate carrying value of HK$43,037,000 (2005: Nil) were pledged to a bank to secure banking facilities granted to the Group as further set out in note 26 to the financial statements.

23. DEBTORS, DEPOSITS AND PREPAYMENTS

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

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables, net				
Within one month	**9,834**	6,912	**—**	—
One to two months	**243**	1,584	**—**	—
Two to three months	**8,894**	2,646	**—**	—
Three to six months	**—**	4,921	**—**	—
Over six months	**4,851**	5,907	**—**	—
	23,822	21,970	**—**	—
Other receivables, prepayments and deposits*	**38,311**	98,427	**263**	46,168
Total	**62,133**	120,397	**263**	46,168

The carrying amounts of debtors, deposits and prepayments approximate to their fair values at the balance sheet date.

Notes to Financial Statements

31st July, 2006

23. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

* Included in other receivables, prepayments and deposits as at 31st July, 2005 is an amount of HK$46,000,000 paid to East Asia-Televisao por Satelite, Limitada ("EAST"), a wholly-owned subsidiary of eSun Holdings Limited ("eSun"), as earnest money paid for the participation rights in a proposed residential property development project of EAST in Macau. On 28th December, 2005, the Group and EAST entered into a second supplemental memorandum of cooperation to extend the time limit of obtaining the relevant approvals for the project from no later than 31st December, 2005 (as set out in the memorandum dated 15th November, 2004 and revised by the supplemental memorandum dated 29th June, 2005) to no later than 30th June, 2006 (collectively referred to as "MOU").

On 31st March, 2006, the Company and EAST executed a termination agreement (the "Termination Agreement") to extinguish the obligations, rights and duties of the parties under the MOU. EAST refunded the earnest money in the amount of HK$46,000,000 to the Company in accordance with the Termination Agreement.

Further details of this deposit are set out in the Company's announcements dated 17th November, 2004, 30th May, 2005, 4th July, 2005, 29th December, 2005 and 31st March, 2006. The Company and eSun have certain common directors and the above transaction constitutes a related party disclosure of the Group.

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

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cash and bank balances		**451,831**	472,546	**151,177**	1,825
Less: Bank balances pledged for bank facilities*		**(11,601)**	(11,106)	**—**	—
Bank balances pledged for non-current bank loans	26	**(7,374)**	(2,217)	**—**	—
Restricted bank balances**		**(188,763)**	—	**—**	—
Non-pledged cash and bank balances		**244,093**	459,223	**151,177**	1,825
Time deposits		**655,032**	35,215	**654,410**	5,843
Less: Restricted time deposits#		**—**	(1,918)	**—**	—
Non-pledged time deposits		**655,032**	33,297	**654,410**	5,843
Cash and cash equivalents		**899,125**	492,520	**805,587**	7,668

Notes to Financial Statements

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

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

** In accordance with relevant laws and regulations stipulated by the government authorities concerned, proceeds from pre-sale of properties are required to be deposited into a designated bank account as guarantee deposits and restricted to be used in the relevant project construction. Such deposits will be released upon the attainment of relevant completion certificates and Real Estate Title Proof issued by the authority.

\# Pursuant to an agreement entered into between the Group and the buyers of certain properties developed by the Group, the Group received a sum of RMB2,000,000 from these buyers in prior year. The sum was deposited into a designated bank account and retained for specific use. During the year, the restricted deposits have been released.

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$285,340,000 (2005: HK$471,093,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business under certain circumstances.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and pledged time deposits and bank balances approximate to their fair values.

25. CREDITORS AND ACCRUALS

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables				
Within one month	**5,719**	338	**—**	—
One to three months	**623**	254	**—**	—
Over three months	**75,514**	34,482	**—**	—
	81,856	35,074	**—**	—
Accruals and other creditors	**323,150**	220,641	**17,014**	12,327
Financial liability — the Put Option#	**—**	—	**—**	—
Total	**405,006**	255,715	**17,014**	12,327

Trade payables of the Group are interest-free and are settled pursuant to the terms of the relevant agreements. The carrying amounts of creditors and accruals approximate to their fair values.

25. CREDITORS AND ACCRUALS (continued)

As detailed in note 20 to the financial statements, Welitron entered into the Put Option Deed with Hua Xiong, the purchaser of the 50% equity interest in and shareholder's loan Beautiwin owed to Welitron upon completion of the Transaction.

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

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

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

26. INTEREST-BEARING BANK LOANS, SECURED

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Secured bank loans:				
Current	5.75 - 6.24	2007	**89,723**	218,527
Non-current	5.75 - 7.47	2008 — 2016	**753,859**	732,538
			843,582	951,065
Analysed into:				
Within one year			**89,723**	218,527
In the second year			**733,840**	319,623
In the third to fifth year, inclusive			**6,993**	412,915
Beyond five years			**13,026**	—
			843,582	951,065

All of the bank loans are floating rate instruments.

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

Notes:

Bank loans of the Group as at 31st July, 2006 are secured by:

(i) mortgages over certain leasehold building and service apartments of the Group, with carrying values of HK$45,445,000 (2005: Nil) and HK$554,582,000 (2005: HK$566,253,000) (note 14) respectively at the balance sheet date;

(ii) mortgages over certain properties under development of the Group with an aggregate carrying value of HK$475,970,000 (2005: HK$443,678,000) (note 15) at the balance sheet date;

(iii) mortgages over certain investment properties of the Group with an aggregate carrying value of HK$3,180,000,000 (2005: HK$3,073,000,000) (note 16) at the balance sheet date;

(iv) mortgages over certain completed properties for sale of the Group with an aggregate carrying value of HK$43,037,000 (2005: Nil) (note 22) at the balance sheet date;

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

(vi) charges over bank balances of the Group of HK$7,374,000 (2005: HK$2,217,000) (note 24) at the balance sheet date; and

(vii) certain corporate guarantees provided by the Company.

27. PROMISSORY NOTE

		Group and Company	
	Effective interest rate (%)	**2006 HK$'000**	2005 HK$'000
Issued to:			
A substantial shareholder (note 33)	8.00	**167,000**	—

On 30th May, 2006, the Company issued a promissory note with a principal amount of HK$167,000,000 to Lai Sun Garment (International) Limited ("LSG"), a substantial shareholder of the Company, in respect of the acquisition of the entire issued share capital of Assetop Asia Limited (note 33). The promissory note is unsecured, bears interest at prevailing Hong Kong Dollar Prime Rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and is wholly repayable on 29th May, 2010. The carrying amount of the promissory note approximates to its fair value.

28. ADVANCES FROM A SUBSTANTIAL SHAREHOLDER

On 31st July, 2006, the executor of Mr. Lim Por Yen's estate, at the request of the Group, confirmed to the Group that no demand for settlement of the advances would be made within one year from the balance sheet date.

The advances are unsecured and interest-free, except for an amount of HK$6,598,000 which was interest-bearing at the best lending rate quoted by a specified bank and fully repaid in the prior year.

29. DEFERRED TAX

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

Group

	Accelerated tax depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of properties HK$'000	Losses available for offset against future taxable profits HK$'000	Total HK$'000
At 1st August, 2004	204,324	—	143,483	(48,413)	299,394
Deferred tax charged/(credited) to the income statement during the year (note 10)	(42,262)	—	143,344	27,471	128,553
Exchange realignment	161	—	2,922	—	3,083
At 31st July, 2005 and 1st August, 2005	162,223	—	289,749	(20,942)	431,030
Deferred tax charged/(credited) to the income statement during the year (note 10)	(12,383)	—	19,940	20,942	28,499
Acquisition of subsidiaries (note 33)	—	163,000	—	—	163,000
Exchange realignment	147	2,289	2,787	—	5,223
At 31st July, 2006	149,987	165,289	312,476	—	627,752

At 31st July, 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

30. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
12,000,000,000 (2005: 7,000,000,000) ordinary shares of HK$0.10 each	**1,200,000**	700,000
Issued and fully paid:		
8,047,956,478 (2005: 5,872,956,478) ordinary share of HK$0.10 each	**804,796**	587,296

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30. SHARE CAPITAL (continued)

During the year, the movements in share capital are as follows:

(a) Pursuant to the subscription agreement dated 10th March, 2006, 1,610,000,000 shares of HK$0.10 each were issued and allotted to CapitaLand China Holdings Pte Ltd on 16th June, 2006 at a subscription price of HK$0.40 per share for a total cash consideration of HK$644,000,000. Further details of the subscription are disclosed in the Company's circular issued on 3rd May, 2006.

(b) Pursuant to ordinary resolutions passed on 23rd December, 2005 and 19th May, 2006, the authorised share capital of the Company was increased from HK$700,000,000 to HK$1,200,000,000 by the creation of 1,000,000,000 and 4,000,000,000 additional shares of HK$0.10 each respectively, ranking pari passu in all respects with the existing share capital of the Company.

(c) On 30th May, 2006, the Company issued and allotted 565,000,000 shares of HK$0.10 each at market price of HK$0.40 per share amounting to HK$226,000,000 to LSG as part of the consideration for the acquisition of 100% equity interest in Assetop Asia Limited (note 33).

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

	Number of shares in issue '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1st August, 2004, 31st July, 2005 and 1st August, 2005	5,872,956	587,296	3,224,676	3,811,972
Subscription of shares (note (a))	1,610,000	161,000	483,000	644,000
Issue of shares for acquisition of subsidiaries (note (c))	565,000	56,500	169,500	226,000
Share issue expenses	—	—	(508)	(508)
At 31st July, 2006	8,047,956	804,796	3,876,668	4,681,464

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31. SHARE OPTION SCHEME

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

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

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

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

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

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

There were no share options granted under the Scheme to any eligible participants, or exercised, or lapsed during the year ended 31st July, 2006. At the balance sheet date, the Company had no share options outstanding under the Scheme (2005: Nil).

Notes to Financial Statements

31st July, 2006

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for current and prior years are presented in the consolidated statement of changes in equity on page 44 of the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Exchange fluctuation reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1st August, 2004		3,224,676	(9,558)	(207,477)	3,007,641
Profit for the year	11	—	—	80,823	80,823
At 31st July, 2005 and 1st August, 2005		3,224,676	(9,558)	(126,654)	3,088,464
Issue of shares	30	652,500	—	—	652,500
Share issue expenses	30	(508)	—	—	(508)
Profit for the year	11	—	—	541,170	541,170
Proposed final dividend	12	—	—	(8,048)	(8,048)
At 31st July, 2006		3,876,668	(9,558)	406,468	4,273,578

33. BUSINESS COMBINATION

Pursuant to the sale and purchase agreement dated 28th February, 2006, the Group acquired a 100% interest in Assetop Asia Limited and its subsidiaries (the "Assetop Group") from LSG (a substantial shareholder of the Company) on 30th May, 2006. The principal asset of the Assetop Group is a 95% interest in a property under development located at Zhabei District, Shanghai, Mainland China. The management has the intention to develop the property under development into a residential and commercial complex. The aggregate purchase consideration for the acquisition of HK$393,000,000 was in form of 565,000,000 new shares of the Company at market price of HK$0.40 per share amounting to HK$226,000,000 (note 30(c)) and a promissory note amounting to HK$167,000,000 issued by the Company (note 27). Further details of the acquisition are disclosed in the Company's circular issued on 3rd May, 2006.

Notes to Financial Statements

31st July, 2006

33. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of the Assetop Group as at the date of acquisition, which are equal to the corresponding carrying amounts immediately before the acquisition, were as follows:

	Notes	Fair value recognised on acquisition and carrying amount HK$'000
Property, plant and equipment	14	78
Property under development	15	577,000
Prepayment and deposits		88
Cash and bank balances		833
Accruals and other payables		(435)
Deferred tax liabilities	29	(163,000)
Minority interests		(21,963)
		392,601
Expenses incurred for the acquisition		(4,162)
Goodwill on acquisition	18	4,561
		393,000
Consideration:		
Promissory note	27	167,000
Issue of shares	30(c)	226,000
		393,000

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

	HK$'000
Cash and bank balances acquired and inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	833

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

Notes to Financial Statements

31st July, 2006

34. DISPOSAL OF INTERESTS IN SUBSIDIARIES

Details of the disposal of interests in subsidiaries are included in note 20 to the financial statements.

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposed of:			
Property under development	15	144,655	—
Accruals		(394)	—
		144,261	—
Expenses incurred for the disposal		1,931	—
Accrual of tax indemnity relating to land cost		11,538	—
Exchange fluctuation reserve realised		(1,951)	—
Gain on disposal of interests in subsidiaries	5	14,926	—
		170,705	—
Satisfied by:			
Cash		98,575	—
Interest in an associate		72,130	—
		170,705	—

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

	2006 HK$'000	2005 HK$'000
Cash consideration and inflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries	98,575	—

The results of the subsidiaries disposed of in the year ended 31st July, 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the current year.

35. CONTINGENT LIABILITIES

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

	Company	
	2006	2005
	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**1,020,834**	1,289,615

As at 31st July, 2006, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of HK$808,896,000 (2005: HK$941,474,000).

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

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

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

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

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

Notes to Financial Statements

31st July, 2006

35. CONTINGENT LIABILITIES (continued)

(c) Details of the Group's share of the contingent liabilities of an associate incurred jointly and those contingent liabilities that arise because the Group is severally liable for the liabilities of the associate are included in note 20 to the financial statements.

36. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by certain assets of the Group, are included in note 26 to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its properties under operating lease arrangements, with leases negotiated for terms ranging from one month to fifteen years (2005: from two months to ten years). The terms of the leases generally require the tenants to pay security deposits.

At 31st July, 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**125,149**	109,250
In the second to fifth years, inclusive	**168,381**	187,760
After five years	**44,503**	45,183
	338,033	342,193

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements, with leases negotiated for terms of two years (2005: two years).

At 31st July, 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**625**	104
In the second to fifth years, inclusive	**260**	—
	885	104

Notes to Financial Statements

31st July, 2006

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
Land lease payments, resettlement, compensation, construction costs and others	**268,375**	620,345

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

39. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Interest income from an associate	(i)	**150**	22,022
Rental expense paid to a director	(ii)	**(150)**	(900)
Advertising fees paid to related companies	(iii)	**(12,442)**	(12,072)
Interest on the promissory note paid to a substantial shareholder	(iv)	**(2,306)**	—

Notes:

(i) Interest is charged on an advance made to an associate at 5.58% per annum (2005: the Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong plus 2% per annum).

(ii) The annual rental charge is based on the terms stated in the lease agreements.

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

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

(iv) Interest is charged on a promissory note issued to LSG, a substantial shareholder of the Company, at the prevailing Hong Kong Dollar Prime Rate as quoted by a designated bank in Hong Kong (note 27).

Notes to Financial Statements

31st July, 2006

39. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties

(i) During the year, the Group acquired of its equity interest in Assetop Asia Limited, a subsidiary of the Company, from LSG. Further details are set out in note 33 to the financial statements.

(ii) The terms of the promissory note payable to LSG is detailed in note 27 to the financial statements.

(c) Outstanding balances with related parties

Details of advances from a substantial shareholder of the Group are included in note 28 to the financial statements.

(d) Compensation of key management personnel of the Group

	2006	2005
	HK$'000	HK$'000
Short term employee benefits	**11,034**	21,903
Post-employment benefits	**91**	383
Total compensation paid to key management personnel	**11,125**	22,286

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Foreign exchange risk

The Group's monetary assets, loans and transactions are principally denominated in Renminbi ("RMB"), United States Dollars ("USD") and Hong Kong Dollars ("HKD"). The Group is exposed to foreign exchange risk arising from the exposure of HKD against USD and RMB, respectively. Considering that the exchange rate between HKD and USD is pegged, the Group believes the corresponding exposure to exchange rate risk is nominal. The Group has a net exchange exposure to RMB as the Group's assets are principally located in Mainland China and the revenues are in RMB. The Group is taking the view that RMB will continue to appreciate against HKD in the foreseeable future and the net exposure to RMB will benefit the Group's financial position. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Credit risk

Credit risk arises from the possibility that the counterparty (buyer or tenant of the Group's properties) to a transaction is unwilling or unable to fulfil its obligation with the result that the Group thereby suffers financial loss. However, such credit risks of the Group are minimal as the property market and economy of Mainland China is relatively stable and grows steadily, respectively.

Since the Group trades only with recognised third parties, there is no requirements collateral.

(iii) Liquidity risk

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

(iv) Cash flow and fair value interest rate risk

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

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

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

(v) Price risk

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at The Chater Room I, Function Room Level (B1), The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 22nd December, 2006 at 10:15 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st July, 2006;

2. To declare a final dividend;

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

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

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

   (A) "**THAT**:

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

   (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

   (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

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

   (ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the Members of the Company in general meeting; or

   (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by law or the Articles of Association of the Company to be held."

Notice of Annual General Meeting

(B) "**THAT**:

(a) subject to paragraph (c) of this Resolution, the exercise by the directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares of the Company, and to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or the convertible bonds and the convertible note of the Company; or (iii) an issue of shares of the Company as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue of shares of the Company or rights to acquire shares of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of this Resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution,

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

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

Notice of Annual General Meeting

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

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 10th November, 2006

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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned meeting (as the case may be), Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Annual General Meeting or at any of its adjourned meeting should they so wish.

3. Concerning item 3 of this Notice, pursuant to Article 99 of the Company's Articles of Association, Messrs. Lim Ming Yan, Lui Chong Chee and Ku Moon Lun will retire at the forthcoming Annual General Meeting and, being eligible, they offer themselves for re-election. Pursuant to Article 116 of the Company's Articles of Association, Mr. Lee Po On and Madam U Po Chu will retire by rotation at the forthcoming Annual General Meeting and, being eligible, Madam U offers herself for re-election. However, Mr. Lee has indicated that he shall not be offering himself for re-election at the forthcoming Annual General Meeting. Details of the above Directors are set out in the "Biographical Details of Directors and Senior Management" section of the Annual Report 2005-2006 of the Company.

4. A circular containing details regarding Ordinary Resolutions No. 5(A) to 5(C) will be sent to Members together with the Company's Annual Report 2005-2006.