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LAI FUNG BONDS (2018) LIMITED

(incorporated with limited liability under the laws of the British Virgin Islands)

US$[•••] [•••] PER CENT. GUARANTEED NOTES DUE [•••]
UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY

LAI FUNG HOLDINGS

LAI FUNG HOLDINGS LIMITED

(incorporated with limited liability under the laws of the Cayman Islands, SEHK Stock Code: 1125)

AND WITH THE BENEFIT OF A KEEPWELL DEED
AND A DEED OF EQUITY INTEREST PURCHASE UNDERTAKING FROM

LAI SUN DEVELOPMENT COMPANY LIMITED

(incorporated with limited liability under the laws of Hong Kong, SEHK Stock Code: 488)

Issue Price: [•••] per cent.

The US$[•••] in aggregate principal amount of [•••] per cent. Guaranteed Notes due 20[•••] (the "**Notes**") will be issued by Lai Fung Bonds (2018) Limited (the "**Issuer**") and will be unconditionally and irrevocably guaranteed (the "**Guarantee of the Notes**") by Lai Fung Holdings Limited (the "**Guarantor**"). The Issuer is a direct, wholly owned subsidiary of the Guarantor. The Notes will be unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves. The Notes and the Guarantee of the Notes will rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Issuer, the Guarantor and Lai Sun Development Company Limited (the "**Company**") will enter into (i) a keepwell deed (the "**Keepwell Deed**") and (ii) a deed of equity interest purchase undertaking (the "**Deed of Equity Interest Purchase Undertaking**") in each case on or about [•••] 2018 as further described in "*Description of the Keepwell Deed*" and "*Description of the Deed of Equity Interest Purchase Undertaking*". Neither the Keepwell Deed nor the Deed of Equity Interest Purchase Undertaking constitutes a direct or indirect guarantee of the Notes or the Guarantee of the Notes by the Company.

Interest on the Notes is payable semi-annually in arrear on [•••] and [•••] in each year, commencing on [•••] 2018. Payments on the Notes and the Guarantee of the Notes will be made without deduction for or on account of taxes of the British Virgin Islands, the Cayman Islands or Hong Kong to the extent described under "*Terms and Conditions of the Notes — Taxation*".

The Notes will mature on [•••] at their principal amount. The Notes are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands, the Cayman Islands or Hong Kong. At any time following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes), the holder of a Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only, of that holder's Notes on the Put Settlement Date (as defined in the Terms and Conditions of the Notes) at 101 per cent. of their principal amount, together with accrued interest. See "*Terms and Conditions of the Notes — Redemption and Purchase*".

Application will be made to The Stock Exchange of Hong Kong Limited (the "**SEHK**") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**" only). This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer, the Guarantor or the Company or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes are expected to be rated "BB-" by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold Notes and maybe subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

MiFID II product governance/Professional investors and ECPs only target market — For the purposes of Directive 2014/65/EU (as amended, "**MiFID II**"), any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market in respect of the Notes which is eligible counterparties and professional clients only, each as defined in MiFID II; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market) and determining appropriate distribution channels.

PRIIPs Regulation/Prohibition of sales to EEA retail investors — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

It is expected that dealing in, and listing of, the Notes on the SEHK will commence on or about [•••] 2018.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 15.

The Notes and the Guarantee of the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered, sold or delivered within the United States. The Notes are only being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". The Notes have not been and will not be rated.

The Notes will be represented by beneficial interests in a global certificate (the "**Global Note Certificate**") in registered form, without interest coupons attached, which will be registered in the name of, and be deposited on or about [•••] 2018 (the "**Closing Date**"), with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate will be shown on, and transfer thereof will only be effected through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Note Certificate.

Joint Bookrunners and Joint Lead Managers

DBS Bank Ltd. **HSBC** **OCBC Bank** **UBS**

Offering Circular dated [•••]2018.

IMPORTANT NOTICE

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that to the best of their knowledge and belief (i) this Offering Circular contains all material information with respect to the Issuer, the Guarantor and its subsidiaries and affiliates taken as a whole (collectively, the "**Group**"), the Notes and the Guarantee of the Notes, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking (ii) all statements of fact relating to the Issuer, the Guarantor, the Group, the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking contained in this Offering Circular are in every material respect true and accurate and not misleading in any material respect, and that there are no other facts in relation to the Issuer, the Guarantor, the Group, the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, the omission of which would in the context of the issue of the Notes, the Guarantee of the Notes, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking make any statement in this Offering Circular misleading in any material respect, (iii) the statements of intention, opinion, belief or expectation with regard to the Issuer, the Guarantor and the Group contained in this Offering Circular are honestly made or held and have been reached after considering all relevant circumstances and have been based on reasonable assumptions, and (iv) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such statements. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular.

The Company, having made all reasonable enquiries, confirms that to the best of its knowledge and belief (i) the statements contained in this Offering Circular relating to the Company are in all material respects true and accurate and not misleading, (ii) the opinions and intentions relating to the Company expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iii) there are no other material facts relating to the Company, the omission of which would, in the context of the issue and offering of the Notes and the giving of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, make any statement in this Offering Circular, in light of the circumstances under which they were made, misleading, and (iv) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements relating to the Company.

This Offering Circular has been prepared by the Issuer, the Guarantor and the Company solely for use in connection with the proposed offering (the "**Offering**") described in this Offering Circular. The distribution of this Offering Circular and the Offering in certain jurisdictions may be restricted by law. Persons whose possession this Offering Circular comes into are required by each of the Issuer, the Guarantor, the Company and the Joint Bookrunners and Joint Lead Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the possession or distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

In connection with the issue of the Notes, any of the Joint Bookrunners and Joint Lead Managers appointed and acting in its capacity as a stabilising manager (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Joint Bookrunners and Joint Lead Managers.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Company and the Group or the Notes other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Company, the Joint Bookrunners and Joint Lead Managers (as defined in this Offering Circular) or the Agents (as defined in the Terms and Conditions of the Notes). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Company, the Joint Bookrunners and Joint Lead Managers or the Agents to subscribe for or purchase any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer, the Guarantor, the Company and the Notes. Each of the Issuer, the Guarantor and the Company accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

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No representation or warranty, express or implied, is made or given by the Joint Bookrunners and Joint Lead Managers or any of their respective affiliates or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Bookrunners and Joint Lead Managers or the Agents. None of the Joint Bookrunners and Joint Lead Managers has independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Bookrunners and Joint Lead Managers, the Agents nor any of their respective affiliates accept any responsibility for the contents of this Offering Circular. Each of the Joint Bookrunners and Joint Lead Managers, the Agents and their respective affiliates accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement herein. None of the Joint Bookrunners and Joint Lead Managers, the Agents nor any of their respective affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor, the Company or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Bookrunners and Joint Lead Managers, the Agents or their respective affiliates.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Company, the Group and the terms of the Offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes and "*Use of Proceeds*" in relation to the use of proceeds from the issue of the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Bookrunners and Joint Lead Managers or any person affiliated with the Joint Bookrunners and Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision.

This Offering Circular does not constitute an offer or an invitation to subscribe for or purchase any Notes, is not intended to provide the basis of any credit or other evaluation, and should not be considered as a recommendation by the Issuer, the Guarantor, the Company, the Agents, the Joint Bookrunners and Joint Lead Managers or any of them that any recipient of this Offering Circular should subscribe for or purchase any Notes. Each recipient of this Offering Circular shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Guarantor, the Company and the Group with its own tax, legal and business advisers as it deems necessary.

This Offering Circular contains the audited consolidated financial statements of the Guarantor for the two years ended 31 July 2016 and 2017, and the audited consolidated financial statements of the Company for the two years ended 31 July 2016 and 2017.

Except as otherwise indicated in this Offering Circular, all non-company specific statistics and data relating to the industry or to the economic development of the PRC have been extracted or derived from publicly available information and industry publications. The information has not been independently verified by the Issuer, the Guarantor, the Company, the Agents or the Joint Bookrunners and Joint Lead Managers or by their respective directors and advisers, and neither the Issuer, the Guarantor, the Company, the Joint Bookrunners and Joint Lead Managers nor their respective directors and advisers make any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

EBITDA PRESENTATION

The Guarantor has included EBITDA data in this Offering Circular because it believes the measure is a useful supplement to cash flow data as a measure of its performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA, as well as the related ratios presented in this Offering Circular, are supplemental measures of the Group's performance and liquidity that are not required by, or presented in accordance with, HKFRS. EBITDA is not a measurement of the Group's financial performance or liquidity under HKFRS and should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance derived in accordance with HKFRS or as alternatives to operating performance, liquidity, profitability or cash flows as a measure of the Group's liquidity. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In addition, EBITDA is not a standardised term, hence a direct comparison between companies using such terms may not be possible.

The Guarantor believes that presentation of EBITDA facilitates comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the aged and booked depreciation and amortisation of assets (affecting relative depreciation and amortisation expense).

The Guarantor also presents EBITDA because it believes that the measure is frequently used by securities analysts, investors and other interested parties in evaluating similar companies in the property industry, many of whom present such non-HKFRS financial measures when reporting their results.

Nevertheless, EBITDA has limitations as an analytical tool, and investors should not consider it in isolation from, or as a substitute for analysis of the Group's financial condition or results of operations, as reported under HKFRS. Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to the Group to invest in the growth of its business. The Guarantor compensates for these limitations by relying primarily on its HKFRS results and using EBITDA measures only supplementally. See "*Summary Financial Information*" for a discussion on EBITDA.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Guarantor*" and elsewhere in this Offering Circular may constitute "*forward-looking statements*". Words such as "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the

Group will operate in the future. Each of the Issuer, the Guarantor and the Company expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's, the Guarantor's, the Company's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's, the Guarantor's, the Company's or the Group's expectations. All subsequent written and forward-looking statements attributable to the Issuer, the Guarantor or the Company or persons acting on behalf of the Issuer, the Guarantor or the Company are expressly qualified in their entirety by such cautionary statements.

CERTAIN TERMS AND CONVENTIONS

Unless otherwise specified or the context otherwise requires, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the PRC, "**PRC**" are to the People's Republic of China (excluding, for the purposes of this Offering Circular only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan), "**US**" or "**United States**" are to the United States of America, "**HK$**" are to Hong Kong dollars being the lawful currency of Hong Kong, "**RMB**" are to the lawful currency of the PRC, "**Sterling**" are to the lawful currency of the United Kingdom, and references to "**US dollars**" or "**US**" are to the lawful currency of the United States.

This Offering Circular contains translations of certain HK dollar amounts into US dollars, and vice versa, at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations between HK$ and US dollars in this Offering Circular were made at the rate of HK$7.80 to US$1.00. No representation is made that the HK$ or US dollar amounts referred to in this Offering Circular could have been or could be converted into US dollars or HK$ at any particular rate or at all.

In this Offering Circular where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

CONTENTS

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

Overview

The Group has been successfully developing and managing high-quality real estate projects in China for more than 20 years and has a number of projects in various stage of development in Shanghai, Guangzhou, Zhongshan and Hengqin. The Group's products include high-quality residential, office and commercial properties, hotels and serviced apartments. With the Group's rental strategy, the Group also specialises in developing and managing attractive and well-located office and retail properties and serviced apartments for long-term rental purposes. The Group's residential projects typically incorporate a variety of amenities and public facilities and are located in prime locations within the inner ring roads and along major transportation routes, including the subway and railway lines, of these cities.

As of 31 July 2017, the Group maintained a rental property portfolio (excluding car-parking spaces) comprised of completed rental properties with attributable GFA of approximately 3.2 million sq. ft. The Group's rental property portfolio consists of its investment properties, as well as a hotel, serviced apartments and other spaces from which the Group collects rent. The Group's prime investment properties include Shanghai Hong Kong Plaza, Shanghai May Flower Plaza, Guangzhou May Flower Plaza and Guangzhou Lai Fung Tower, which are well-known commercial properties in their respective local markets and have generated stable and recurrent rental income for the Group at close to full occupancies. For the years ended 31 July 2015, 2016 and 2017, turnover from the Group's rental properties was approximately HK$626.0 million, HK$629.4 million and HK$702.1 million, respectively. For these same periods, the Group's rental income as a percentage of its consolidated turnover was approximately 32.9 per cent., 30.8 per cent. and 52.9 per cent., respectively. The Group's rental income interest coverage, which is rental income divided by total interest expenses (interest and bank financing charges paid), was 2.1x, 2.2x and 2.2x for the years ended 31 July 2015, 2016 and 2017, respectively.

The Group's property development business has a regional focus in Shanghai, Guangzhou, Zhongshan and Hengqin. The Group currently has five property development projects in various stages of development, of which two are located in Shanghai, one in Guangzhou, one in Zhongshan and one in Hengqin, with a total attributable GFA of approximately 5.7 million sq.ft. as at 31 July 2017 excluding car-parking spaces and ancillary facilities. Construction works of Phase 1 of the Novotown project in Hengqin, Zhuhai commenced at the end of 2015 and the completion is expected to be by the end of 2018. The acquisition of the 6th to 11th floors of Hui Gong Building that is physically connected to Northgate Plaza I in Shanghai, together with the right to use 20 car-parking spaces in the basement ("Hui Gong Building") was completed in September 2016. The Group plans to redevelop Shanghai Northgate Plaza I, Northgate Plaza II and the Hui Gong Building together under a comprehensive redevelopment plan and therefore enhance the overall value of the combined development. Demolition of Northgate Plaza I and Hui Gong Building has been completed in May 2017 and foundation works commenced in September 2017. Completion is expected to be in the second quarter of 2021. As of 31 July 2017, we held a total attributable GFA of approximately 0.8 million sq. ft. of completed projects for sale, excluding car-parking spaces and ancillary facilities.

As of 31 July 2017, the Group's equity attributable to owners of the Company was HK$14,584 million. For the years ended 31 July 2016 and 2017, the Group's consolidated turnover was HK$2,043.5 million and HK$1,326.7 million, respectively, and its consolidated profit attributable to owners of the Company was HK$873.5 million and HK$1,477.5 million, respectively.

Recent Developments

Share Consolidation

The Guarantor announced in July 2017 its proposal to consolidate every 50 issued and unissued ordinary shares of HK$0.10 each in its share capital into one ordinary share of HK$5.00 each in its share capital (the "**Share Consolidation**"). The Guarantor's shareholders approved the Share Consolidation at its extraordinary general meeting held on 14 August 2017. The adjustments to the Guarantor's existing applicable shares subject to the share options granted in 2012, 2013 and 2015 have taken effect from 15 August 2017.

Novotown

In November 2017, the Group entered into a cooperation agreement with Harrow International (China) Management Services Limited ("**HICMS**") and ILA Holdings Limited ("**ILAH**") bringing Harrow International China Group, the world's leading learning institution, to set up Innovation Leadership Academy Hengqin in Phase II of the Novotown project in Hengqin, Zhuhai. The cooperation aims to enhance the general education experience in Hengqin and across the region catering for learning needs of local and overseas families residing within the Pearl River Delta area, including Hengqin, Zhuhai, Macau and Greater Bay Area. Discussions between the Group and the Hengqin government regarding the land concession and the Phase II development of the Novotown are ongoing.

Competitive Strengths

The Group believes that it is well-positioned to take advantage of the continued development of the property market in the PRC by leveraging the following competitive strengths:

Strong recurrent rental income stream

The Group has carefully maintained a diversified rental property portfolio that includes retail and office properties and hotels and serviced apartments, which are held for long-term rental purposes. Major rental properties in the Group's portfolio are located in downtown areas and accessible by different transportation networks. Rental revenue has been increasing steadily as a whole with almost full occupancy in all the major properties. The steady rental revenue stream helps to reduce the financial risks inherent in relying on income primarily from property development, which include the cyclicality of the property development business.

Strategic for-sale development projects enhancing corporate franchises

The Group believes that the quality of its for-sale property development projects has enabled it to achieve a strong market position and serves as a strong complementing revenue stream. In addition to its rental-led strategy, the Group plans its property development projects to cater to the needs and expectations of our potential buyers in the middle- to high-end property market.

Quality land bank

The Group believes that a quality land bank is one of the most important characteristics for a property developer and that one of the key factors of its success has been its ability to acquire sites at competitive prices at opportune times, thereby enabling the Group to achieve a reasonable return on the properties it has developed and sold or held. As of 31 July 2017, the Group held land under development with a total attributable GFA of approximately 5.7 million sq. ft., the attributable GFA of which the Group intended to use for rental and for sale purposes was approximately 3.7 million sq. ft. and 2.0 million sq. ft., respectively.

Strong shareholder support and capital base

As of 31 July 2017, the Group was 50.8 per cent. owned by eSun Holdings Limited ("**eSun**"), its ultimate holding company. Along with eSun, the Group is part of the Lai Sun Group, a conglomerate of five companies listed in Hong Kong. The Lai Sun Group has made extensive investments in China, originating as a garment manufacturing business and retailer, and has been engaged in property development in the PRC since 1993.

The Lim/Lam family, which controls the Lai Sun Group, has what the Group considers to be an extensive network of well-developed business relationships in the PRC. Being a member of the Lai Sun Group gives the Group access to this extensive network of local contacts and information on the latest market opportunities.

In June 2006, CapitaLand China, a wholly owned subsidiary of CapitaLand, which is a Singapore listed property developer, became the Group's key strategic shareholder by subscribing for 1,610 million of its new shares, which represented approximately 20 per cent. of its issued share capital at the time. CapitaLand is one of the largest property developers in Asia and has extensive experience ranging from the development of large-scale shopping centers to office blocks and residential developments in the PRC.

Seasoned management team

The Group's senior management team consists of experienced property development and rental property professionals, who have internationally recognized qualifications and extensive experience in the development, sales and management of real estate projects, not only in major PRC cities such as Shanghai and Guangzhou, but also overseas.

The Group has established management and project teams who have been engaged in the PRC property market for over fifteen years. The Group believes that, by employing and retaining individuals with domestic or overseas backgrounds, it has been able to capitalize on their collective expertise in both the local and international property markets, and selectively apply different ideas, concepts and practices such that the Group can develop and sell properties that appeal to both domestic as well as overseas customers.

Strategies

The Group aims to continue to grow as a property developer with increasing focus on rental properties with a presence in the larger cities in the PRC where it has an established base. Overall, the Group intends to continue to pursue a prudent and disciplined corporate strategy of steady and sustainable growth. The Group has developed the following business strategies to pursue its growth objectives:

Increase recurrent rental income from core rental properties

The Group intends to continue to derive a significant portion of its revenue from high-quality rental properties in central areas in major cities. Going forward, the Group intends to retain any sizeable commercial and retail elements to grow its rental property portfolio, thus increasing the recurrent income rental base, while residential projects will be built primarily for sale. The Group maintains and improves the value of its rental properties by investing in refurbishment and renovation. The Group will continue to improve the recurrent income base through upgrading existing rental properties and adding new commercial properties from development projects.

Focus on the middle- to high-end market

The Group targets its products at the middle- to high-end market and aim to provide quality office, retail and residential properties and hotels and serviced apartments for purchasers and tenants of this market at affordable prices. The Group believes that the middle- to high-end market still has significant growth potential as demand for middle- to high-end residential, office and retail properties will continue to increase as a result of the rapid development of the PRC economy, and the corresponding urbanization, increase in income, and improvement in living standards of the urban population. In addition, the Group believes that risks of significant fluctuations in property prices and demand in the middle- to high-end market would be lower than in the luxury property market, since the level of speculative investments in its chosen segment is not as intensive.

Continue to expand the Group's business operations and land bank in a disciplined manner

The Group intends to continue to expand its business operations and replenish its land bank in a prudent and selective manner. Benefitting from the strong recurring income from its rental portfolio, the Group is currently in no rush to acquire any new land bank. The Group will continue to review appropriate opportunities to acquire new development sites and projects, including both greenfield projects and partially completed projects, while maintaining a system of financial controls and managing its costs through a detailed budget-planning process. The Group believes that purchasing land at prices that are low relative to the expected selling prices or capital values of the finished projects is a critical factor in managing financial risk and achieving superior profitability. In its selection of new development sites, the Group will continue to focus on those located in major transportation routes which are convenient and easily accessible.

The Group will also continue to review appropriate opportunities to partner with large and reputable developers and participate or invest in large-scale property development consortiums in the PRC in a selective manner to minimise risks.

Continue to enhance the Group's reputation as a quality developer by delivering value to its customers and partners

The Group intends to continue to promote the image of the properties in its property portfolio. The Group's dedicated in-house sales and marketing team, which has over 130 employees, works closely with third-party advertising agencies to implement the Group's marketing strategies. The Group seeks to maintain high standards in the properties that it develops in terms of design, quality of materials and furnishings in order to maintain its reputation as a developer of quality properties. The Group also provides management services of international standards to properties it developed in the PRC.

THE ISSUE

The following contains some summary information about the Notes. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this summary. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular.

Issuer	Lai Fung Bonds (2018) Limited.
Guarantor	Lai Fung Holdings Limited.
Keepwell and Equity Interest Purchase Undertaking Provider	Lai Sun Development Company Limited.
Notes	US$[•••] in aggregate principal amount of [•••] per cent. Notes due [•••].
Guarantee of the Notes	The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes.
Issue Price	[•••] per cent. of the principal amount of the Notes.
Form and Denomination	The Notes will be issued in registered form in the denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof.
Issue Date	[•••] 2018.
Maturity Date	[•••].
Offering	The Notes are only being offered outside the United States in reliance on Regulation S under the Securities Act. The Notes and the Guarantee of the Notes have not been registered, and will not be registered, under the Securities Act and, subject to certain exemptions, may not be offered or sold in the United States.
Interest	The Notes will bear interest from, and including, the Issue Date at the rate of [•••] per cent. per annum, until the Maturity Date, payable semi-annually in arrear on [•••] and [•••] in each year.

Status	The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank pari passu without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The payment obligations of the Guarantor under the Guarantee of the Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 of the Terms and Conditions of the Notes) unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.
Cross Default	The Notes will contain a cross default provision as further described in Condition 8(c) of the Terms and Conditions of the Notes.
Events of Default	Upon the occurrence of certain events as described in Condition 8 of the Terms and Conditions of the Notes, and upon notice in writing addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office (as defined in the Agency Agreement referred to in the Terms and Conditions of the Notes) of the Fiscal Agent, Noteholders representing not less than 5.0 per cent. of the principal amount of the Notes outstanding may declare the Notes immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.
Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and sale. See "*Subscription and Sale*".
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date.

Redemption for Tax Reasons	The Issuer may redeem the Notes in whole, but not in part, at their principal amount, together with interest accrued to, but excluding the date fixed for redemption, in the event of certain changes in British Virgin Islands, Cayman Islands or Hong Kong taxation, as further described in Condition 5(b) of the Terms and Conditions of the Notes.
Redemption for Change of Control	A Noteholder shall have the right, at such Noteholder's option, to require the Issuer to redeem all, but not some only, of that holder's Notes on the Change of Control Put Date at 101 per cent. of their principal amount, together with accrued interest to, but excluding, the Change of Control Put Date, upon the occurrence of a Change of Control (as defined in Condition 5 of the Terms and Conditions of the Notes).
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes, as described in Condition 13 of the Terms and Conditions of the Notes.
Fiscal Agent, Principal Paying Agent and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Clearing Systems	The Notes will be represented by beneficial interests in the Global Note Certificate, which will be registered in the name of a nominee for, and deposited on the Issue Date with a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will only be effected through records maintained by, Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Note Certificate.
Governing Law	English law.
Ratings	The Notes are expected to be assigned ratings of "BB-" by Fitch. A rating is not a recommendation to buy, sell or hold Notes and maybe subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing	Application will be made to the SEHK for the listing of the Notes by way of debt issues to Professional Investors only, and dealing, if permission is granted to deal in and for the listing of the Notes on the SEHK, is expected to commence on [•••] 2018.

Use of Proceeds	See section headed "*Use of Proceeds*".
Keepwell Deed	The Issuer, the Guarantor and Company will enter into the Keepwell Deed as further described in "*Description of the Keepwell Deed*".
Deed of Equity Interest Purchase Undertaking	The Issuer, the Guarantor and the Company will enter into the Deed of Equity Interest Purchase Undertaking as further described in "*Description of the Deed of Equity Interest Purchase Undertaking*".
ISIN	XS1747539465.
Common Code	174753946.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at the end of the reporting period and for the years/periods indicated.

The summary consolidated financial information as at and for the two years ended 31 July 2016 and 2017 set forth below is derived from the Guarantor's audited consolidated financial statements for the two years ended 31 July 2016 and 31 July 2017 (which have been audited by Ernst & Young, Certified Public Accountants, and are included elsewhere in this Offering Circular).

The summary financial information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial information of the Guarantor, including the notes thereto, included elsewhere in this Offering Circular.

None of the Joint Bookrunners and Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Guarantor's audited consolidated financial statements as at and for the two years ended 31 July 2016 and 31 July 2017 for an assessment of the Guarantor's financial condition and results of operations. The Joint Bookrunners and Joint Lead Managers have not independently verified such information and can give no assurance that the information is truthful, accurate or complete. Accordingly, potential investors must exercise caution when using such data to evaluate the Guarantor's financial condition or results of operations.

Summary Consolidated Income Statement Information

	For the year ended 31 July		
	2016	2017	2017
	(HK$)	*(HK$)*	*(US$)*[(1)] (unaudited)
	(in thousands, except for per share data)		
Turnover	2,043,530	1,326,682	170,088
Cost of sales	(954,724)	(662,438)	(84,928)
Gross profit	1,088,806	664,244	85,160
Other income and gains	133,476	151,596	19,435
Selling and marketing expenses	(61,498)	(93,629)	(12,004)
Administrative expenses	(289,680)	(300,597)	(38,538)
Other operating expenses, net	(124,930)	(124,050)	(15,904)
Fair value gains on cross currency swaps	—	111,657	14,315
Fair value gains on investment properties	528,015	800,104	102,578
Profit from operating activities	1,274,189	1,209,325	155,042
Finance costs	(156,356)	(166,083)	(21,293)
Share of profits of joint ventures	167,752	609,562	78,149
Profit before tax and tax indemnity	1,285,585	1,652,804	211,898
Tax	(388,163)	(556,156)	(71,302)
Tax indemnity	—	493,936	63,325
Profit for the year	897,422	1,590,584	203,921
Attributable to:			
Owners of the Company	873,527	1,477,452	189,417
Non-controlling interests	23,895	113,132	14,504
	897,422	1,590,584	203,921
Earnings per share attributable to owners of the Company	(Adjusted)		
Basic	HK$2.702	HK$4.547	HK$0.583
Diluted	HK$2.702	HK$4.542	HK$0.582
EBITDA[(2)]	985,313	1,091,187	139,896
EBITDA margin[(3)]	48.2%	82.2%	82.2%

Notes:

(1) For the reader's convenience, U.S. dollar translations of Hong Kong dollar amounts for the year ended 31 July 2017 have been provided at a rate of US$1.00 = HK$7.80.

(2) Earnings before interest, taxes, depreciation and amortization ("**EBITDA**") for any period is calculated as profit before tax and tax indemnity minus property revaluation gain/loss plus depreciation and amortization and finance costs and other non-cash items. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, the Group believes that investors should consider, among other things, the components of EBITDA such as turnover and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes it is a useful supplement to cash flow data as a measure of its performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definition.

EBITDA for the year ended 31 July 2015 was HK$904,106,000.

(3) EBITDA margin is calculated by dividing EBITDA by turnover.

Consolidated Statement of Comprehensive Income

	For the year ended 31 July		
	2016	**2017**	**2017**
	(HK$)	*(HK$)*	*(US$)* (unaudited)
		(in thousands)	
Profit for the year	897,422	1,590,584	203,921
Other comprehensive income/(expenses) to be reclassified to the income statement in subsequent periods, net of tax			
Exchange differences arising on translation to presentation currency	(987,871)	(134,482)	(17,241)
Share of other comprehensive income/(expenses) of joint ventures	(52,223)	2,934	376
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	(88,697)	(101,887)	(13,063)
Reclassification adjustments for exchange gain included in the consolidated income statement	135,756	69,653	8,930
	47,059	(32,234)	(4,133)
	(993,035)	(163,782)	(20,998)
Total comprehensive income/(expenses) for the year	(95,613)	1,426,802	182,923
Attributable to:			
Owners of the Company	(98,997)	1,314,396	168,512
Non-controlling interests	3,384	112,406	14,411
	(95,613)	1,426,802	182,923

Summary Consolidated Statement of Financial Position Information

	As of 31 July		
	2016	**2017**	**2017**
	(HK$)	*(HK$)*	*(US$)* (unaudited)
		(in thousands)	
Assets and liabilities			
Non-current assets			
Property, plant and equipment	1,450,871	1,703,731	218,427
Prepaid land lease payments	4,623	4,397	563
Investment properties	14,661,728	16,457,221	2,109,900
Properties under development	1,184,375	1,341,974	172,048
Investments in joint ventures	804,431	1,387,570	177,894
Investments in associates	—	343	44
Deposit for acquisition of an investment property	228,620	—	—
Total non-current assets	18,334,648	20,895,236	2,678,876
Current assets			
Properties under development	791,844	213,818	27,413
Completed properties for sale	503,187	904,811	116,001
Debtors, deposits and prepayments	367,068	256,671	32,906
Prepaid tax	32,575	42,844	5,493
Pledged and restricted time deposits and bank balances	1,066,374	571,022	73,208
Cash and cash equivalents	2,546,240	2,057,346	263,762
	5,307,288	4,046,512	518,783
Asset classified as held for sale	257,666	278,531	35,709
Total current assets	5,564,954	4,325,043	554,492
Current liabilities			
Creditors and accruals	797,512	957,047	122,698
Deposits received and deferred income	596,367	245,024	31,413
Interest-bearing bank loans, secured	287,548	82,031	10,517
Fixed rate senior notes	—	2,080,366	266,714
Derivative financial instruments	—	208,223	26,695
Loans from a joint venture	350,328	192,731	24,709
Tax payable	399,326	104,958	13,456
Total current liabilities	2,431,081	3,870,380	496,202
Net current assets	3,133,873	454,663	58,290
Total assets less current liabilities	21,468,521	21,349,899	2,737,166

Summary Consolidated Statement of Financial Position Information *(continued)*

	As of 31 July		
	2016	**2017**	**2017**
	(HK$)	*(HK$)*	*(US$)*
			(unaudited)
		(in thousands)	
Non-current liabilities			
Long-term deposits received	124,389	140,240	17,979
Interest-bearing bank loans, secured	2,747,970	2,814,062	360,777
Advances from a former substantial shareholder	54,675	54,143	6,941
Loans from a fellow subsidiary	221,714	218,279	27,985
Loans from a joint venture	222,430	649,779	83,305
Fixed rate senior notes	2,092,741	—	—
Derivative financial instruments	210,068	—	—
Deferred tax liabilities	2,406,920	2,704,032	346,671
Total non-current liabilities	8,080,907	6,580,535	843,658
	13,387,614	14,769,364	1,893,508
Equity			
Equity attributable to owners of the Company:			
Issued capital	1,619,770	1,628,509	208,783
Reserves	11,694,997	12,955,602	1,660,975
	13,314,767	14,584,111	1,869,758
Non-controlling interests	72,847	185,253	23,750
	13,387,614	14,769,364	1,893,508

Prior to making any investment decision, prospective investors should carefully consider all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The Issuer, the Guarantor and the Company believe that the following factors may affect their ability to fulfil their obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer and the Guarantor are not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer, the Guarantor and the Company believe may be material for the purpose of assessing the risks associated with the Notes are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or the Guarantor to pay principal, interest or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of investing in or holding the Notes are exhaustive.

Risks relating to the Group's Business

The Group's business is heavily dependent on the performance of the real estate market in the PRC, which is cyclical in nature and may be subject to downturns in the future, which may cause significant fluctuations in the Group's property development activities.

The Group has built its business and reputation by developing properties in the PRC since 1997 and is heavily dependent on the performance of the real estate market in the PRC. Any housing market downturn in the PRC generally or in the regions where the Group operates could adversely affect its business, results of operations and financial condition. As of 31 July 2017, all of the Group's projects were located in Shanghai and Guangdong Province. The Group cannot assure the investors that the demand for new properties in the regions and cities in the PRC where it operates or intends to expand will continue to grow or that prices will not deteriorate. In addition, fluctuations of supply and demand in the real estate market in China are caused by economic, social, political, regulatory and other factors that are outside of the Group's control and the Group cannot assure the investors that there will not be over-supply of properties or an economic downturn in the property sector in the cities and regions of China.

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major cities in the PRC, including Guangzhou and Shanghai, in the early 1990s culminated in an oversupply in the mid-1990s and a corresponding fall in property values and rents in the second half of the decade. Since the late 1990s, private residential property prices and the number of residential property development projects have increased in major cities as a result of an increase in demand driven mainly by domestic economic growth. In particular, prices of residential properties in certain major PRC cities such as Shanghai have experienced rapid and significant growth. There is, however, no assurance that the problems of over-supply and falling property prices that occurred in the mid 1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect the Group's business, financial condition and results of operations.

The cyclical nature of the PRC property market affects the optimal timing for both the acquisition of sites and the sale of completed development properties. This cyclicality, combined with the lead time required for the completion of projects and the sale of properties, means that the Group's results of operations relating to property development activities have been and will continue to be susceptible to significant fluctuations from period to period. For the years ended 31 July 2016 and 2017, turnover from property development accounted for approximately 69.2 per cent. and 47.1 per cent., respectively, of the Group's consolidated turnover.

The Group's turnover and profit during any given period reflect the quantity of properties delivered during that period and are affected by any peaks or troughs in its property delivery schedule and may not be indicative of the actual demand for the Group's properties, sales or profitability achieved during that period. The Group's turnover and profit during any given period generally reflect property investment decisions made by purchasers at some significant time in the past, typically at least in the prior fiscal period. As a result, the Group's operating results for any period are not necessarily indicative of results that may be expected for any future period, and make it difficult to predict the Group's future performance.

To the extent that supply in the overall property market significantly exceeds demand, the Group may be subject to significant downturns and disruptions in the market for a sustained period. Alternatively, if a serious downturn in regional or global market conditions should occur, like the Asian financial crisis in 1997, this may seriously affect and disrupt the property market in the PRC. If any of these events were to occur, the Group's financial condition and results of operations would be adversely affected.

The performance of the Group's property development business may be adversely affected by legal and regulatory changes introduced by the PRC Government.

The Group's business is subject to extensive governmental regulation and the macroeconomic control measures implemented by the PRC Government from time to time. As with other PRC property developers, the Group must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designated to implement such laws and regulations. In particular, the PRC Government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC Government may restrict or reduce the land available for property development, raise the benchmark interest rates of commercial banks, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector. In November 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Filing of Foreign Investment into Real Estate Industry, which provides that, among other things, if a real estate enterprise is established in China with overseas capital, it is prohibited from purchasing and/or selling real estate properties completed or under construction for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in real estate development, which may affect the Group's ability to make further investments in its PRC subsidiaries and, as a result, may limit the Group's business growth and have an adverse effect on the Group's business, financial condition and results of operations.

The PRC Government has recently announced a series of other measures designed to stabilise the growth of the PRC economy and to stabilise the growth of specific sectors, including the property market, to a more sustainable level.

- On 26 January 2011, the General Office of the State Council issued the Circular on Issues Concerning Further Properly Regulating and Controlling the Real Estate Market, which, among other things, raised the minimum down payment for second house purchases from 50 per cent. to 60 per cent., with the minimum lending interest rate at 110 per cent. of the benchmark rate. Furthermore, many cities have promulgated measures to restrict the number of houses one family is allowed to newly purchase in order to implement the aforesaid notice, such as Guangzhou, Tianjin, Beijing, Shanghai, Suzhou, Qingdao, Jinan, Chengdu and Foshan. In order to implement the central government's requirement, other cities in China where the Group's property projects are located may also issue similar restrictive measures in the near future which may have adverse effects on its business.

- The State Council also approved, on a trial basis, the launch of a new property tax scheme in selected cities. The detailed measures will be formulated by the governments of the pilot provinces, autonomous regions or municipalities directly under the central government. On 27 January 2011, the governments of Shanghai and Chongqing issued their respective measures for implementing pilot property tax schemes, which became effective on 28 January 2011. The local measures of Chongqing were amended on 13 January 2017. These two governments may issue additional measures to tighten the levy of property tax. The imposition of property tax on commodity properties owned by individuals will increase the purchasing cost of properties and is expected to have a negative impact on the demand for properties in China, which in turn could have a material adverse effect on the Group's business, financial condition and results of operations. The Group cannot assure the investors that property development and investment activities will continue at past levels or that there will not be an economic downturn in the property markets in the regions and cities where it operates.

- On 8 March 2011, the General Office of CBRC issued the Notice on Promoting Housing Financial Services and Strengthening Risk Management, which stipulates that, in handling the individual housing loan business, financial institutions must strictly implement the provision that, with respect to families that purchase second residential properties through a loan, the down payment may not be less than 60 per cent., and the loan interest rate may not be less than 1.1 times the benchmark rate.

- On 12 July 2011, the State Council announced the PRC Government's intention to impose austerity measures on second-and third-tier cities. The State Council ordered the Ministry of Housing and Urban-Rural Development ("**MOHURD**") to compile a list of the specific second-and third-tier cities that will be affected by the austerity measures. If austerity measures on second-and third-tier cities are implemented, particularly in second-and third-tier cities where the Group has property projects or plan to have property projects, its business, financial condition and operating results may be materially and adversely affected.

- On 26 February 2013, the General Office of the State Council issued the Notice on Continuing to Effectively Regulate the Real Estate Market which provides that, among other things, house purchase restriction measures shall continue to be implemented strictly, and homeowners who sell their houses will be levied an individual income tax as high as 20 per cent. of the profit they make on the transaction if the original value of the house can be verified through historical information (such as tax collection and administration, and house registration, etc.) To implement this notice, certain local governments, such as those in Shanghai and Guangdong Province, have subsequently issued measures of their own.

- On 30 March 2015, the Ministry of Finance and the State Administration of Taxation issued the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Business Tax Policies on Individual Housing Transfers. According to the latest regulation, which stipulates that individuals who purchased their house for self-residential purposes may, two or more years after the purchase, resell their house without paying business tax. Individuals who have purchased their house for any purpose other than self-residential purposes shall, if they owned it for two years or more, pay business tax on the net profit, that is, the difference between the original price and the sales price. Individuals who have owned their house for less than two years shall pay business tax on the full sales price regardless of the purpose for which it was purchased. This tax policy may curtail market demand for residential properties and, as a result, may materially and adversely affect the Group's business and future prospects.

If local regulatory and austerity measures continue and/or are widened in scope or to more localities where the Group has property projects or plan to have property projects, the Group's business, financial condition and operating results may be materially and adversely affected.

Many of the property industry policies carried out by the PRC Government are unprecedented and are expected to be amended and revised over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies. The Group cannot assure the investors that the PRC Government will not adopt additional and more stringent industry policies, regulations and measures in the future, nor can the Group assure the investors when or whether the existing policies will be eased or reversed. If the Group fails to adapt its operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt the Group's business, reduce its sales or average selling prices, or cause the Group to incur additional costs, the Group's business, results of operations and financial condition may be materially and adversely affected.

For more risks and uncertainties relating to the extensive PRC regulations, see "*Regulation*".

Changes of laws and regulations with respect to pre-sales may adversely affect the Group's cash flow position and performance.

The Group uses proceeds from the pre-sale of its properties as a source of financing for the Group's construction costs and the Group faces risks relating to the pre-sale of properties. For example, the Group may find itself liable to the purchasers for their losses if the Group pre-sells units in a property development and fail to complete that development. If the Group fail to complete a pre-sold property on time, its purchasers may claim compensation for late delivery pursuant to either their contracts with the Group or relevant PRC laws and regulations. If the Group's delay extends beyond a specified period, its purchasers may terminate their pre-sale contracts and claim for compensation. A purchaser may also terminate his or her contract with the Group if the GFA of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3 per cent. from the GFA of that unit set out in his or her contract. The Group cannot assure the investors that it will not experience delays in the completion and delivery of its projects, nor that the GFA for a delivered unit will not deviate by more than 3 per cent. from the GFA set out in the relevant contract in every instance. Any termination of the purchase contract as a result of the Group's late delivery of properties or deviation from the GFA set out in such contract may have a material adverse effect on the Group's business, financial condition and results of operations.

Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence pre-sales of the relevant properties and pre-sales proceeds may only be used to finance the related development. Various PRC authorities and regulators have publicly called for the discontinuance or abolishment of pre-sales, or to impose tighter regulations on such practice. The Group cannot assure the investors that the PRC Governmental authority will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Proceeds from the pre-sale of the Group's properties are an important source of financing for its property developments. Consequently, any restriction on the Group's ability to pre-sell its properties, including any increase in the amount of up-front expenditure the Group must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of the Group's capital outlay and would result in the Group having to seek alternative means to finance the various stages of its property developments. This, in turn, could have an adverse effect on the Group's business, cash flow, results of operations and financial condition.

The Group's results of operations may be adversely affected if it fails to obtain, or there are delays in obtaining, requisite governmental approvals for its property development projects.

The PRC property market is heavily regulated by the PRC Government. PRC property developers must comply with various requirements mandated by laws and regulations, including the policies and procedures established by local authorities for the implementation of such laws and regulations. In order to develop and complete a property development project, the Group must obtain various permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of property development, including, but not limited to, land use rights certificates, planning permits, construction permits, pre-sale permits and certificates or confirmations of completion and acceptance. See "*Description of the Guarantor — Business — Property Development*". Each approval is dependent on the satisfaction of certain conditions. There can be no assurance that the Group will not encounter major problems in fulfilling the conditions precedent to the approvals, or that the Group will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property market in general or the particular approval process. There may also be delays on the part of the administrative bodies in reviewing the Group's applications and granting approvals. If the Group fails to obtain the relevant approvals for its property development projects, these developments may not proceed on schedule or at all, and the Group's business, financial condition and results of operations may be adversely affected.

Delays in obtaining land use rights certificates may adversely affect the Group's business, financial condition and results of operations.

In order to develop and sell real estate in the PRC, property developers are required to obtain land use rights certificates from the relevant local PRC Government authorities. The relevant authorities will not generally issue the formal land use rights certificate in respect of a parcel of land until the land premium is paid in full and the resettlement process is completed. As a result, in order to adjust the pace of the Group's development projects, the Group may divide the land for a property development into one or more parcels for which multiple land use rights certificates will need to be obtained at different stages of development.

Under current PRC land grant policies and regulations, the Group is allowed to commence development of its properties as soon as the Group has signed the land grant contracts or registered the land use rights transfer agreements, as the case may be, with the relevant authorities. However, the land use rights in respect of these properties and any land that the Group may acquire in the future will not be formally vested until the Group has received the corresponding formal land use rights certificates. If the Group is unable to acquire future land use rights certificates, this could have a material adverse effect on the Group's business, financial condition and results of operations going forward. See "*Description of the Guarantor — Business — Property Development*".

The Group's business, revenue and profitability depend on the availability of an adequate supply of sites and PRC land grant policies, the Group's ability to obtain land at prices which would enable it to achieve reasonable returns as well as on projects available in the Group's pipeline and ability to pre-sell such projects.

The Group derives substantially all of its revenue from the development of its properties which are either held for sale or for investment purposes. As a result, the Group's revenue is dependent on the completion and sale of its developments, which in turn depends on the Group's ability to continue to replenish and increase its land bank at reasonable costs, which in turn depends on supply and demand. The Group's prospects, profitability and competitive position may therefore be affected to the extent that the Group is unable to acquire land in Shanghai or Guangdong Province, or other parts of China, at prices which would enable the Group to achieve reasonable returns as well as on projects available in the Group's pipeline and ability to pre-sell such projects. The cyclical nature of the real estate market, combined with the lead time required for the completion of projects and the sale of properties, means that the Group's results of operations relating to property development activities have been and will continue to be susceptible to significant fluctuations from period to period. For the years ended 31 July 2016 and 2017, turnover from property development accounted for approximately 69.2 per cent. and 47.1 per cent., respectively, of the Group's consolidated turnover.

Based on the Group's current rate of property development, the Group believes it has sufficient land reserves for development for approximately the next five years. The Group's ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond its control. The supply of substantially all of the land in China is controlled by the PRC Government. The land supply policies adopted by the PRC Government directly impact the Group's ability to acquire land use rights for development and its costs of such acquisitions. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers may obtain land. The PRC Government also controls land supply through zoning, land usage regulations and other means.

All these measures further intensify the competition for land in China among property developers. In 2002, the PRC Government introduced a nationwide system of mandatory public tender, auction or listing-for-sale for the grant of land use rights for commercial use, tourism, entertainment and commodity property development. On 28 September 2007, the Ministry of Land and Resources ("**MLR**") issued revised Rules on the Grant of State-owned Construction Land Use Rights through Public Tender, Auction and Listing-for-sale, which further stipulate legal and procedural requirements on public tender, auction or listing-for-sale, the only means by which State-owned land use rights can be granted by the PRC Government for industrial purposes, commercial purposes, tourism, entertainment and commodity property development, and require that the land premium must be paid in full to local land administration bureau pursuant to the underlying land grant contract before the land use rights certificate can be issued to the land user. The PRC Government's policy to grant State-owned land use rights at competitive market prices has substantially increased and is likely to continue to increase the acquisition cost of land reserves generally in the PRC.

In addition, in September 2010, the MLR and the MOHURD jointly issued the Notice on Further Strengthening the Administration and Control of Real Estate Land and Construction, which stipulates, among other things, that the planning and construction conditions and land use standards should be specified when a parcel of land is to be granted, and the restrictions on the area of any parcel of land granted for commodity properties should be strictly implemented. The development and construction of large low-density residential properties should be strictly restricted, and the plot ratio for residential land is required to be more than 1:1. In addition, a property developer and its shareholders will be prohibited from participating in any bidding to acquire additional land until any illegal behaviour in which it has engaged, such as leaving its land idle for more than one year, has been completely rectified. The implementation of these regulations may increase land transfer prices and require property developers to maintain a higher level of working capital. See "*Regulation*".

If the Group fails to acquire sufficient land reserves in a timely manner and on acceptable terms, or at all, the Group's business, prospects, results of operations and financial condition may be materially and adversely affected.

The global economic slowdown and financial crisis have negatively impacted, and may continue to negatively impact, the Group's business.

The global economic slowdown and turmoil in the global financial markets beginning in the second half of 2008 have had a negative impact on the PRC economy, which in turn has affected the PRC property market. For example:

- the economic slowdown and tightened credit have resulted in lower demand for residential and commercial properties and declining property prices;

- the economic slowdown has adversely impacted home owners and potential property purchasers, which may lead to a further decline in the general demand for property products and a further erosion of their selling prices; and

- the tightening of credit has negatively impacted the ability of property developers and potential property purchasers to obtain financings.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In the Middle East, Eastern Europe and Africa, political unrest in various countries has resulted in economic instability and uncertainty. China's economic growth may also slow due to weakened exports. Moreover, as the PRC is transitioning to a consumption-based economy, the forecast growth rate of the PRC is expected to be significantly lower than its average growth rate over the past thirty years. Since 2011, the PRC government has taken measures to control inflation and slow the price increases in the property market. Government policies aimed at reducing local government and corporate debt levels could also reduce liquidity in the economy, which in turn may affect the property market. There can be no assurance that the transaction volume and property prices will remain stable and any adverse development in the condition of the property market in the PRC due to global economic slowdown and financial crisis could have a material adverse effect on our business, financial condition and results of operations.

The Group's profitability is dependent on the demand, performance and development of the property markets in Shanghai and Guangdong Province.

Notwithstanding the Group's efforts to expand its business to other PRC cities, the Group continues to depend significantly on the demand for investment properties and performance of the property markets in Shanghai and Guangdong Province. The Group is currently developing five projects in the PRC, of which two are located in Guangzhou, two in Shanghai, one in Zhongshan and one in Hengqin. In addition, as of 31 July 2017, 13.6 per cent., 10.7 per cent., 36.6 per cent. and 39.1 per cent. of the Group's land bank under development are located in Shanghai, Guangzhou, Zhongshan and Hengqin, respectively. Accordingly, the Group's business, financial condition and results of operations have been, and will continue to be, heavily dependent on the property markets in Shanghai and Guangdong Province. The property markets in Shanghai, Guangzhou, Zhongshan and Hengqin may perform differently from property markets in other cities or areas in the PRC. The Group cannot assure the investors that the demand for new properties in Shanghai and Guangdong Province will continue to grow or that rental rates will not deteriorate. In addition, fluctuations of supply and demand for investment properties are driven by economic, social, political, regulatory and other factors that are outside of the Group's control and the Group cannot assure the investors that its profitability and business will not deteriorate in times of downturn of the property markets in Shanghai and Guangdong Province. In the past few years, prices of residential properties in these markets as a whole have risen significantly, but such growth has often been coupled with volatility in market conditions and fluctuation in property prices. It is not possible to predict whether demand for residential property in the PRC will continue to grow in the future, as many social, political, economic, legal and other factors may affect the development of the property market. Accordingly, there can be no assurance that the level of demand will consistently match the level of supply. In the event of any unfavourable developments in the supply and demand of property prices in Shanghai or Guangdong Province, the Group's business, financial condition and results of operations may be adversely affected. See "*Risk Factors — The Group's business is heavily dependent on the performance of the real estate market in the PRC, which is cyclical in nature and may be subject to downturns in the future, which may cause significant fluctuations in the Group's property development activities*".

The Group has provided guarantees to secure obligations of purchasers of its properties for repayment. Demands made on such guarantees to secure obligations could adversely affect the Group's financial condition.

The Group enters into arrangements with PRC banks to facilitate the provision of mortgage facilities to purchasers of its properties. In accordance with industry practice, the Group is required to provide guarantees to mortgagee banks in respect of mortgages offered to its customers until completion of construction and the relevant property ownership certificates are submitted to the relevant mortgagee banks. The Group's current practice is to guarantee the period from the date of the mortgage up to the delivery of title certificates to the bank, which typically ranges between one to two years. If a purchaser defaults under the mortgage loan and the bank calls on the loan before the relevant individual property ownership certificate is obtained, the Group is obligated to repay the entire outstanding principal amount of the loan, together with all accrued interest thereon, owed by the purchaser to the relevant mortgagee bank. To mitigate the Group's losses, however, the mortgagee bank will typically assign its rights under the loan and the mortgage to the Group and the Group will have full recourse to the property. The Group therefore has contingent liabilities in respect of pre-registration mortgages.

In addition, if there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to mortgagee banks in respect of mortgages offered to property purchasers and these mortgagee banks do not accept any alternative guarantees from other third parties, or, if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales of the Group's properties. If this occurs, property sales may decrease, which could adversely affect the Group's business, financial condition and results of operations.

In line with industry practice, the Group does not conduct independent credit checks on purchasers but rely on the credit checks conducted by the mortgagee banks. Although the Group has historically experienced a low rate of default on mortgage loans it guaranteed, there can be no assurance that defaults will not occur in the future or that the Group will not suffer any losses due to such defaults. If a significant number of purchasers default on their mortgages and the Group's guarantees are called upon, the Group's business, results of operations and financial condition could be materially and adversely affected to the extent that there is a material depreciation in the value of the relevant properties from the price paid by the purchaser or that the Group cannot sell such properties due to unfavourable market conditions or other reasons beyond its control.

The Group may be liable to its customers for damages if it does not deliver individual property ownership certificates in a timely manner.

According to the relevant PRC law, property developers must meet various requirements as stated below within 90 days of the delivery of property or such other time period as may be provided in the relevant sales and purchase agreement to assist a purchaser in obtaining the individual property ownership certificate. The Group generally elects to specify the deadline for applying for an individual property ownership certificate in the sales and purchase agreement to allow sufficient time for the application and approval process. After obtaining the completion certificate for a development, the Group must apply for a general property ownership certificate for the entire development. This involves, among other things, the submission of a number of documents, including land use rights documents, planning approvals and construction permits. Following the effective date of a sales and purchase agreement for one or more units in a development, the Group then assists the purchaser in applying for an individual property ownership certificate for each unit. This involves the submission of other documents, including the sales and purchase agreement, identification documentation for the purchaser, evidence of payment of deed tax and a copy of the general property ownership certificate issued to us. Delay by a purchaser in providing the documents relating to the purchaser, or delay by the various administrative authorities in reviewing the relevant application document, as well as other factors beyond the Group's control, may affect timely delivery of the relevant individual property ownership certificate.

Under current PRC laws and regulations and under the Group's sales and purchase agreements, the Group is required to compensate its customers for delays if caused in delivery of individual property ownership certificates. During the years ended 31 July 2016 and 2017, the Group did not pay any material compensation for delays in delivery of individual property ownership certificates. However, the Group cannot assure investors that delays in delivery caused by it of the required property ownership certificates will not occur. Significant delays with respect to one or more of the Group's developments may materially and adversely affect the Group's reputation, business, results of operations and financial condition.

The Group relies on third-party contractors to provide it with various services.

The Group outsources all of its construction work to third-party contractors. The Group relies on its contractors to complete projects according to the agreed completion schedules and the Group does not exercise any direct control over material sourcing or the construction schedule of such projects. The Group engages independent third-party contractors to provide it with various services in connection with property development, including construction, piling and foundation, building and property fitting-out work, interior decoration and the installation of air-conditioning units and elevators. There is no assurance that the services rendered by the third-party contractors will always be satisfactory or match the targeted quality level. The Group relies on its main contractors to obtain the requisite construction permits to commence construction of its sites.

As a property developer, the Group may be liable for administrative penalties if its contractors fail to obtain all of the requisite construction permits. The Group is also exposed to the risk that a contractor may require additional capital in excess of the price originally tendered to complete a project and that the Group may have to bear such additional amounts in order to provide them with sufficient incentives to complete the projects. Furthermore, there is a risk that major contractors may experience financial or other difficulties which may affect their ability to carry out construction work, thus delaying the completion of development projects or resulting in additional costs for the Group. Any of these factors could adversely affect the Group's business, reputation, financial condition and results of operations.

The Group's properties may encounter unforeseeable risks, may not be completed according to planned schedules and may not generate the levels of expected revenue or contemplated investment returns.

There are a number of financing, operating and other risks associated with property development. The projects the Group undertakes typically require substantial capital expenditures during the construction phase and usually take many months, and sometimes years, before cash proceeds are generated. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages of and price increases in construction materials, equipment or labour, adverse weather conditions, natural disasters, latent soil or subsurface conditions, latent environmental damage requiring remediation, changes in market conditions, an economic downturn or a decline in consumer confidence, labour disputes, removal of squatters, disputes with sub-contractors, accidents, difficulties in obtaining necessary governmental approvals, changes in governmental priorities and other unforeseen circumstances. Any of these circumstances, or circumstances not specifically named above, could give rise to construction delays and/or cost overruns.

Under the Group's standard form pre-sale contract, the Group is liable to the purchasers for default payments if it fails to deliver the completed properties in accordance with the delivery schedule in these contracts, and, in the case of a prolonged delay, the purchasers will be entitled to terminate the pre-sale contracts and obtain a refund of the purchase price or receive default payments provided for in the sales contract in view of the delayed delivery. In addition, the failure to complete construction according to the Group's specifications may result in liabilities or reduced efficiency, which may lead to cost overruns and lower financial returns, each of which could adversely affect the Group's reputation, business, financial condition and results of operations.

The Group's rental portfolio is also subject to a number of factors that are out of the Group's control. As rental properties are, in general, relatively illiquid, the Group's ability to promptly sell them in response to changing economic, financial and investment conditions is limited. The Group cannot predict whether it will be able to promptly if at all, sell any of its rental properties, for the price or on the terms set by it, or whether any price or other terms offered by a prospective purchaser would be acceptable to it. The Group also cannot predict the length of time needed to find a purchaser and to close a sale in respect of a rental property and such delays could adversely affect the Group's business, reputation, financial condition and results of operations.

The Group will face legal and business risks if it fails to obtain formal qualification certificates.

A PRC property developer must hold a valid qualification certificate to develop property. According to the Provisions on Administration of Qualifications of Real Estate Developers issued by the Ministry of Construction (now MOHURD), a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be renewed annually for not more than two consecutive years. If, however, the newly established property developer fails to commence a property development project within the one-year period following the provisional qualification certificate, it will not be allowed to renew the term of its provisional qualification certificate. Developers with longer operating histories must submit their qualification certificates to relevant construction administration authorities for review annually. Government regulations require developers to fulfil all statutory requirements before they may obtain or renew their qualification certificates.

The Group conducts its property developments through project companies. These project companies must hold valid qualification certificates to be able to conduct their businesses. Some of the Group's project companies are in the process of obtaining or renewing their qualification certificates. The Group cannot assure the investors that its project companies will be able to obtain or renew the necessary qualification certificates in a timely manner, or at all. If any of the Group's project companies does not obtain or renew the necessary qualification certificate in a timely manner, or at all, the Group's prospects, and its business, results of operations and financial condition, may be materially and adversely affected.

Pursuant to the Measures for the Administration of Qualifications of Property Service Enterprises, entities engaged in property management are required to obtain qualification certificates before they commence their business operations. The Group's wholly-owned property management subsidiaries are primarily engaged to manage the residential and commercial properties the Group developed. The Group cannot assure the investors that it will not encounter significant problems in satisfying statutory requirements that would permit the Group the renewal of qualification certificates. If any property management companies are unable to meet the relevant requirements and therefore unable to obtain or maintain the qualification certificates or there are delays on the part of the administrative bodies in reviewing and processing the Group's applications and granting licences, qualification certificates, permits or any other government approvals or certificates for any of its major property projects, the Group's development schedule and its sales could be substantially delayed, resulting in a material and adverse effect on the Group's business, results of operations and financial condition.

The Group has significant construction and capital expenditure requirements in relation to its investment properties.

The Group's investment properties require significant upfront capital expenditures but generate no cash inflow until the development has been completed and the relevant property commences operation. Construction and other delays can extend the duration of this period. In addition, the Group's operating and future investment properties will need renovations and other capital improvements, including replacements, from time to time. There is no assurance that estimates of renovation costs will be sufficient and that the Group's cost of construction and capital improvements will not have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's rental properties have certain fixed costs that it may not be able to adjust in a timely manner in response to a reduction in demand.

The fixed costs associated with owning serviced apartments and retail units, including, but not limited to, committed maintenance costs, property taxes and other associated payments may be significant. The Group may be unable to reduce these fixed costs in a timely manner in response to changes in demand for its services, and any failure to adjust fixed costs may adversely affect the Group's business, financial condition and results of operations.

Moreover, the Group's properties, and any properties in which it may acquire interests in the future, may be subject to increases in operating and other expenses due to adverse changes in contractual terms and increases in property and other tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could materially adversely affect the Group's business, financial condition and results of operations.

The fair value of the Group's completed investment properties and the investment properties under development that are subject to mark-to-market assessment is likely to fluctuate from time to time and may decrease significantly in the future, which may materially and adversely impact the Group's profitability.

The Group is required to reassess the fair value of certain of its investment properties (a subset of the Group's rental properties) as of the end of the reporting period. In accordance with HKFRS, gains or losses (as applicable) arising from changes in the fair value of such investment properties should be accounted for in the Group's income statements in the period in which they arise. The Group's completed investment properties and investment properties under construction at fair value that are subject to mark-to-market assessment are revalued by independent property valuers on a semi-annual basis on an open market for existing use basis which reflected market conditions at those dates. Based on such valuation, the Group recognised the aggregate fair market value of its investment properties on its consolidated statement of financial position, and recognised changes in fair values of investment properties and the relevant deferred tax on its consolidated income statements. For the two years ended 31 July 2016 and 2017, the fair value gains on the Group's investment properties were HK$528.0 million and HK$800.1 million, respectively, and accounted for approximately 41 per cent. and 48 per cent., respectively, of the Group's profit before tax and tax indemnity for the respective years. Fair value gains or losses do not, however, change the Group's cash position as long as the relevant investment properties are held by it and, accordingly, do not increase the Group's liquidity in spite of the increased profit represented by any fair value gains. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. Macroeconomic factors, including economic growth rate, interest rate, inflation rate, urbanisation rate and disposable income level, in addition to any government regulations, can substantially affect the fair value of the Group's investment properties and affect the supply and demand in the PRC property market. All these factors are beyond the Group's control and the Group cannot assure the investors that changes in market conditions will continue to create fair value gains on its investment properties at the historical levels, or at all, or that the fair value of the Group's investment properties will not decrease in the future. If the fair value of the Group's investment properties declines, the Group's profitability would be materially and adversely affected.

The Group may not be able to leverage its experience in Shanghai, Guangzhou, Zhongshan and Hengqin to expand into other cities.

Since the Group's inception, the Group has primarily focused on property development in Shanghai and Guangdong Province. In the future, the Group may leverage its experience in Shanghai, Guangzhou, Zhongshan and Hengqin to expand into other cities in the PRC. These cities may differ from Shanghai, Guangzhou, Zhongshan and Hengqin in terms of the level and pace of economic development, topography, demography, culture, regulatory practices, the Group's level of familiarity with contractors, business practices and customs, customer tastes, behaviour and preferences and the Group's experience in Shanghai, Guangzhou, Zhongshan and Hengqin may not be applicable to other PRC cities.

In addition, as the Group enters new markets and geographical areas, the Group is likely to compete with local developers who have an established local presence, are more familiar with local regulations, business practices and customs and have stronger relationships with local contractors, all of which may give them a competitive advantage over the Group. Additionally, such entry into new markets and geographical areas may place a significant strain on the Group's managerial, operational and financial resources and may contribute to increasing the Group's financing requirements. Any failure to leverage the Group's experience or understand the local property markets into which it expands and any negative consequences of such expansion on the Group's current operations may have a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, if the Group is unsuccessful in its endeavours outside Shanghai and Guangdong Province, the Group's confinement to the Shanghai, Guangzhou, Zhongshan and Hengqin markets over the longer term may constrain its development and prospects.

The Group may not be able to successfully manage its growth.

The Group has been rapidly expanding its operations in recent years. As the Group continues to grow, the Group must continue to improve its managerial, technical and operational knowledge and allocation of resources, and to implement an effective management information system. To effectively manage the Group's expanded operations, it needs to continue to recruit and train managerial, accounting, internal audit, engineering, technical, sales and other staff to satisfy the Group's development requirements. In order to fund the Group's ongoing operations and future growth, its needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Furthermore, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. The Group will need to further strengthen its financial reporting, internal audit, disclosure control, internal control and compliance functions to ensure that the Group is able to comply with its legal and contractual obligations and reduce its operational and compliance risks. The Group cannot assure the investors that it will not experience issues such as capital constraints, construction delays, operational difficulties at new operational locations or difficulties in expanding its existing business and operations and training an increasing number of personnel to manage and operate the expanded business. Neither can the Group assure the investors that its expansion plans will not adversely affect its existing operations and thereby have a material adverse effect on the Group's business, financial condition, results of operations and future prospects.

Increasing competition in the PRC property market may adversely affect the Group's profitability.

The Group's property development operations face competition from a significant number of both international and local property developers with respect to factors such as location, facilities and supporting infrastructure, services and pricing. The Group directly competes with such international and local property developments in capturing new business opportunities in the PRC.

In recent years, a large number of property developers have begun to undertake property development and investment projects in Guangzhou, Shanghai and elsewhere in the PRC. These include overseas property developers (including a number of leading Hong Kong property developers) and local property developers in the PRC, many of whom have greater financial and other capital resources, marketing and other capabilities and/or name recognition than the Group. In addition, some local companies may have extensive local knowledge and business relationships and/or a longer operational track record in the relevant local markets than the Group and international companies may be able to capitalise on their overseas experience to compete in the PRC markets. Intensified competition between property developers may result in increased costs for land acquisition and raw materials, an oversupply of properties, a slowdown in the approval process for new property development projects by the relevant government authorities, an increase in construction costs and difficulty in obtaining high-quality contractors and qualified employees, any of which may adversely affect the Group's business, financial condition and results of operations. There can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors or that increased competition with respect to the Group's activities may not have a material adverse effect on the Group's business, financial condition and results of operations. See "*Description of the Guarantor — Business — Competition*".

The Group may not have adequate financing to fund its land acquisitions and property projects.

The property development business is capital-intensive. The Group will require additional financing to fund working capital and capital expenditures, to support the future growth of its business and/or to refinance existing debt obligations. The Group's core business will require substantial expenditure, particularly for property development. The Group has historically required and expect that in the future it will continue to require external financing to fund its working capital and capital expenditure requirements. The Group cannot assure the investors that it will have sufficient cash flow available for land or property acquisitions or developments or that it will be able to achieve sufficient pre-sales and sales to fund land or property acquisitions or developments. As of 31 July 2017, the Group's total long-term and short-term bank loans, senior-fixed-rate notes and other borrowings were HK$6,091.4 million and would become HK$[•••] million adjusted to give effect to the Notes being issued (before deducting fees and other expenses payable in connection with this offering). The Group's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital markets conditions, interest rates, credit availability from banks or other lenders, investor confidence in the Group, the success of the Group's principal business, provisions of tax and securities laws that may be applicable to the Group's efforts to raise capital and political and economic conditions in the PRC. The Group's capital expenditure for the year ended 31 July 2017 was HK$1,343.9 million.

Various PRC regulations restrict the Group's ability to raise capital through external financing and other methods, including, without limitation, the following:

- The Group cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;

- PRC banks are prohibited from extending loans to real estate companies for the purposes of funding the purchase of land use rights;

- The Group cannot borrow from a PRC bank for a particular project unless it obtains the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit for that project;

- PRC banks are restricted from granting loans for the development of luxury residential properties;

- Property developers are strictly prohibited from using the proceeds from a loan obtained from a local bank to fund property developments outside the region where that bank is located; and

- PRC banks are prohibited from accepting properties that have been vacant for more than three years as collateral for loans.

Specific measures implemented by the PRC Government in recent years include the following examples:

- The PBOC has prohibited commercial banks from granting loans to property developers to pay land premiums since June 2003;

- The MOHURD and other PRC Government authorities jointly issued the Opinions on Adjusting the Housing Supply Structure and Stabilising the Housing Prices in May 2006, which, among other things:

  - restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties; and

  - prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for their loans;

- SAFE issued the Notice regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that Have Properly Filed with the MOFCOM in July 2007, which, among other things:

  - effectively prohibits offshore funding to Foreign-Invested Real Estate Enterprises approved by and filed with the MOFCOM on or after 1 June 2007 ("**FIREE**") in the form of loans;

  - restricts the ability of FIREEs to raise funds by increasing registered capital; and

  - restricts the ability of FIREEs to raise capital through foreign debt;

- The PBOC and CBRC jointly issued the Notice on Strengthening the Administration of Commercial Real Estate Credit Loans in September 2007, which, among other things:

  - prohibits commercial banks from granting loans to property projects if the developer's own capital is less than 35 per cent. of the total investment amount;

  - prohibits commercial banks from granting loans to property projects that have not obtained land use rights certificates, construction land planning permits, construction works planning permits and construction works commencement permits; development loans and not as general working capital loans; and

  - requires that in principle real estate development loan proceeds may only be used for developments in the local city where the loan is originated.

- In March 2010, the MLR stipulated that the minimum down payment of land premium of 50 per cent. should be paid within one month of the signing of a land grant contract and the rest of the land premium should be fully paid within one year of the signing of a land grant contract.

In addition, the PBOC has adjusted the reserve requirement ratio for commercial banks five times in 2015 and once in 2016. The reserve requirement ratio for commercial banks currently ranges from 13 per cent. to 16.5 per cent., with effect from 1 March 2016. Increases in the reserve requirement ratio may negatively impact the amount of funds available to lend to business, including the Group, by commercial banks in China. The PRC Government could also introduce other initiatives that may further limit the Group's access to capital, and/or consequently reduce the Group's flexibility and ability to use bank loans or other forms of financing to finance its acquisitions and property developments. For example, in April 2010, the State Council issued the Circular on Resolutely Curbing the Excessive Hike of Property Prices in Some Cities, which mandates that developers who hold idle land or speculate in land will not be granted bank loans for the development of new property projects. In September 2010, the PBOC and CBRC jointly issued a notice to prohibit banks from lending to any property developer for its new projects or renewal of its existing loans if such developer has a track record of maintaining idle land, changing the use and nature of land without proper approval, delaying the construction, commencement or completion date, hoarding properties or other non-compliance. These government actions and policy initiatives limit the Group's ability to use bank loans to finance its acquisitions and property development projects. The PRC Government, moreover, could introduce other initiatives which may further limit the Group's access to capital, and consequently limit the Group's ability to obtain bank loans, the net proceeds from this offering or other forms of financing. If the Group fails to secure adequate financing or renew its existing credit facilities prior to their expiration, or if the PRC Government adopts further restrictive credit policies in the future, the Group's business, results of operations and financial condition may be materially and adversely affected.

The Group cannot assure the investors that the PRC Government will not introduce other initiatives which may limit its access to capital resources. The foregoing and other initiatives introduced by the PRC Government may limit the Group's flexibility and ability to use bank loans or other forms of external financing to finance its property developments and may require the Group to maintain a relatively high level of internally sourced cash. There can be no assurance that additional financing, either on a short-term or a long-term basis, will be made available or, if available, that such financing will be obtained on favourable terms. As a result, the Group's business and financial condition may be materially adversely affected.

In addition to external financing, the Group utilises proceeds from pre-sales of its properties as an important source of financing for its property development projects. There is no assurance that the Group will be able to continue achieving sufficient pre-sales to fund a particular development. See "*Risk Factors — Changes of laws and regulations with respect to pre-sales may adversely affect the Group's cash flow position and performance*".

The Group is subject to uninsured risks.

The Group carries third-party liability and fire insurance on certain completed developments in which it has an ownership interest. As required by the Group's creditors, it maintains insurance on all its investment properties. It is a standard term in construction contracts in the PRC that the contractors will bear the risks associated with the construction of the project and, accordingly, risks associated with properties under development are borne by the Group's contractors, as the Group outsources all of its construction work. Although the Group expects its third-party construction companies to maintain appropriate insurance coverage, the Group cannot assure the investors that their insurance would cover or be sufficient to satisfy all claims, or that it would not be sued or held liable for damages notwithstanding its insurance coverage.

In addition, there are certain types of losses (such as losses caused by war, civil disorder, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters) that are generally not insured because they are either uninsurable or because insurance cannot be obtained on commercially reasonable terms. This practice is consistent with what the Group believes to be the industry practice in the PRC. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose capital invested in the properties and anticipated future revenue therefrom while remaining liable for any mortgage indebtedness or other financial obligations relating to the relevant property. Any such loss could materially and adversely affect the Group's business, financial condition and results of operations.

The terms on which mortgages are available, if at all, to purchasers of the Group's properties may affect its sales.

A majority of the purchasers of the Group's properties rely on mortgages to finance their purchases. An increase in interest rates may significantly increase the cost of mortgage financing and affect the affordability of residential properties. In addition, the PRC Government and commercial banks may also increase the down payment requirement, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. In cities where "housing purchase restriction" measures are not implemented, the minimum down payment ratio for commercial individual housing loans granted to households of residents for purchasing ordinary housing units for the first time is generally 25 per cent., and may be lowered by five percentage points by local governments. For second time home purchasers who use mortgage financing, the minimum down payment has increased to no less than 60 per cent. of the purchase price, and the minimum loan interest rate must be at least 10 per cent. above the relevant PBOC benchmark interest rate. For commercial property purchasers, banks are now not allowed to finance the purchase of any pre-sale properties. The minimum down payment for commercial property purchasers has increased to 50 per cent. of the purchase price, and the minimum loan interest rate must be at least 10 per cent. above the relevant PBOC benchmark interest rate and the term of the loan may not exceed 10 years. In addition, banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50 per cent. of the individual borrower's monthly income or if the total debt service of the individual borrower would exceed 55 per cent. of such individual's monthly income. If the availability or attractiveness of mortgage financing is reduced or limited, many of the Group's prospective customers may not be able to purchase its properties and, as a result, the Group's business, liquidity and results of operations could be materially and adversely affected.

In line with industry practice, the Group provides guarantees to banks for mortgages they offer to the Group's purchasers up until the Group completes the relevant property and the individual property ownership certificates with respect to the relevant properties are issued to purchasers and the mortgage registrations for the relevant properties have been completed. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and the banks would not accept any alternative guarantees by third parties, or if no third party is available or willing in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks and other financial institutions during sales and pre-sales of the Group's properties. Such difficulties in financing could result in a substantially lower rate of sale and pre-sale of the Group's properties, which would materially and adversely affect the Group's cash flow, financial condition and results of operations.

The Group's business and results of operations may be adversely affected by further increases in interest rates.

Changes in interest rates have affected and will continue to affect the Group's financing costs and, ultimately, its results of operations. The interest on much of the indebtedness accrues based on interest rates that benchmark the one-year lending rate published by the PBOC. Any material fluctuation in the benchmark lending rate could have a material impact on the Group's interest payable under its bank loans and in turn affect its results of operations and financial condition. In recent years, the PRC government from time to time adjusted interest rates to control the level of liquidity in the market and the PRC economy. In April 2006, the PBOC raised the benchmark one-year lending rate from 5.58 per cent. to 5.85 per cent. and in August 2006 further increased such rate to 6.12 per cent. The PBOC again increased the one-year lending rate six times in 2007 from 6.12 per cent. to 7.47 per cent. in December 2007. Beginning in 2008, the PBOC decreased the benchmark one-year lending rate five times, from 7.47 per cent. to 5.31 per cent. in December 2008, which remained unchanged until September 2010. The one-year lending rate increased to 5.81 per cent. as of 26 December 2010, increased to 6.06 per cent. effective from 9 February 2011, increased to 6.31 per cent. effective from 6 April 2011 and increased to 6.56 per cent. from 7 July 2011. The one-year benchmark interest rate decreased by 25 basis points in June 2012 and again by 31 basis points in July 2012. In November 2014, the PBOC further decreased the benchmark one-year lending rate by 40 basis points to 5.6 per cent. By end of 2015, the benchmark one-year lending rate was further decreased to 4.35 per cent. As commercial banks in China link the interest rates on their loans to benchmark lending rates published by the PBOC, any further increase in such benchmark lending rates will increase the interest costs for the Group's property developments.

In addition, increases in interest rates may affect the Group's customers' ability to secure mortgages on acceptable terms, which in turn may affect their ability to purchase the Group's properties.

As of 31 July 2016 and 2017, the Group had current secured interest-bearing bank loans of HK$287.5 million and HK$82.0 million, respectively. As of 31 July 2016 and 2017, the Group had non-current secured interest-bearing bank loans of HK$2,748.0 million and HK$2,814.1 million, respectively.

As a result, this increase in interest rates and any further increases in interest rates, including the PBOC benchmark rate, will adversely affect the affordability and attractiveness of mortgage financing to potential purchasers of the Group's properties. The Group's cost of borrowing would also increase as a result of interest rate increases, which would, in turn, adversely affect the Group's results of operations. For the year ended 31 July 2017, the effective interest rate of the Group's current secured bank loans was between 4.14 per cent. and 5.88 per cent. per annum. For the same period, the effective interest rate for the Group's non-current secured bank loans was between 3.84 per cent. and 5.88 per cent. per annum.

The Group's LAT provisions and prepayments may not be sufficient to meet its LAT obligations.

In accordance with the provisions of the Provisional Regulations of the People's Republic of China on Land Appreciation Tax and the related implementation rules, all entities and individuals that receive income from the sale or transfer of land use rights, buildings and ancillary facilities are subject to LAT at progressive rates ranging from 30 per cent. to 60 per cent. of the appreciated value of such properties. There is an exemption for the sale of ordinary residential properties if the appreciated value does not exceed 20 per cent. of the total deductible expense items allowed under the relevant LAT regulations. This exemption is not available for sales of luxury residential properties, villas and commercial properties. It is not clear whether the residential portion of the Group's mixed residential and commercial developments will be eligible for the exemption available to ordinary residential properties. SAT clarified LAT settlement to some extent in its Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises effective 1 February 2007. This notice clarifies that provincial and local tax bureaus may formulate their own implementing rules and determine how LAT will be settled in their jurisdictions.

The Group has been prepaying LAT in respect of its pre-sale proceeds since a prepayment obligation was imposed in 2004. In addition, the Group also makes provision for the estimated amount of LAT that may be payable in respect of its other sales. The Group made a net LAT provision of HK$92.2 million for the year ended 31 July 2016. The Group also made LAT provision of HK$180.6 million for the year ended 31 July 2017. LAT provisions are recorded as a part of "Taxation payable" on the Group's balance sheets. The Group cannot assure the investors that the relevant tax authorities will agree with its calculation of LAT liabilities, nor can the Group assure the investors that the LAT provisions will be sufficient to cover its LAT obligations in respect of the Group's past LAT liabilities. If the relevant tax authorities determine that the Group's LAT liabilities exceed its LAT prepayments and provisions, and seek to collect that excess amount, the Group's cash flow, results of operations and financial condition may be materially and adversely affected.

The Group has made a LAT provision in the consolidated financial statements of the Group. For a development project for sale, the LAT payable for the whole project is determined based on the estimated total sales proceeds and the estimated total development costs of such project by applying the relevant PRC laws and regulations. Upon recognition of sales of the relevant property units, corresponding LAT payable is accrued in the Group's consolidated financial statements on a pro rata basis for the saleable floor area sold. The Group's LAT provision is subject to adjustment if the Group's estimates change. In addition, deferred tax liability is provided for properties under development for sales by applying prevailing LAT rates on estimated land appreciation value (which is determined with reference to the difference between the carrying value stated in the Group's consolidated balance sheet and the estimated total tax deductible costs which includes the 20 per cent. statutory allowance) based on the legislation, interpretations and practices in the locality in which the respective property under development is situated.

In the event that the tax authorities collect the LAT that the Group has provided for in its accounts, the Group will incur a cash outlay. Furthermore, in the event that LAT eventually collected by the tax authorities upon completion of the tax audit exceeds the amount that the Group has provided for, the Group's net profits after tax will also be adversely affected. In respect of property development projects that have not met the tax audit eligibility criteria, the Group has paid and will continue to pay provisional LAT as required by the tax authorities. The LAT that is ultimately payable upon completion of the tax audit of such projects in the future may be greater than the provisional LAT paid by the Group. Therefore, while the Group believes at the time of provisioning that it is making a sufficient provision, there is no assurance that the Group's provisions will be adequate to cover its aggregate LAT obligations.

Resettlement negotiations may add costs or cause delays to the Group's development projects.

Under PRC laws and regulations, where the Group is responsible for the demolition of existing properties on a site for development and the removal of existing residents, the Group will be required to pay resettlement costs to those residents. The compensation payable by the Group is calculated by applying prescribed formulae provided by the relevant provincial authorities. There is no assurance that the relevant provincial authorities will not change their compensation formulae. If they do, construction costs may be subject to substantial increases which could adversely affect the Group's business, financial condition and results of operations. The Group currently has one site which is subject to resettlement requirements. The resettlement process is expected to be completed by the end of 2018, however, this is subject to factors outside of the Group's control.

Existing owners or residents may disagree with the compensation arrangements or refuse to relocate. If the party responsible for the demolition and removal and the party subject to the demolition and removal fail to reach an agreement for compensation and resettlement, either of them may apply for a ruling of the relevant governmental authorities and, if a party is not satisfied with the ruling, it may initiate proceedings in a people's court within three months of the date of service of such ruling, which may cause delays to the development projects. Such proceedings and delays, if they occur, could adversely affect the Group's reputation. In addition, any such delays to the Group's development projects will lead to an increase in the cost and a delay in the expected cash inflow resulting from rental proceeds (in the case of a rental property) and pre-sales of the relevant project and the recognition of sales as turnover upon completion (in the case of properties for sale), which may in turn adversely affect the Group's business, financial position and results of operations.

Although the Group takes into consideration the difficulties in resettlement compensation negotiations before it enters into such contractual arrangements, the protracted resettlement process may also adversely affect the Group's plans to obtain the relevant land use rights or enter into the new markets. In addition, there is no assurance that the Group will be able to reach agreements for compensation and resettlement for such redevelopment projects on terms satisfactory to it or at all. Moreover, an unfavourable final determination or settlement regarding the amount of compensation payable by the Group may increase the cost of the development and materially and adversely affect the Group's cash flow, business, results of operations and financial condition.

The illiquidity of property investments and the lack of alternative uses of serviced apartments and rental properties could significantly limit the Group's ability to respond to adverse changes in the performance of its properties.

As rental properties are, in general, relatively illiquid, the Group's ability to promptly sell them in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond the Group's control. The Group cannot predict whether it will be able to sell any of its rental properties, which include the Group's investment properties plus all other rental generating properties, for the price or on the terms set by it, or whether any price or other terms offered by a prospective purchaser would be acceptable to it. The Group also cannot predict the length of time needed to find a purchaser and to close a sale in respect of a rental property. Should the Group decide to sell a property subject to a management agreement or tenancy agreement, it may have to obtain consent from, or pay termination fees to, its management partners or anchor retail tenants.

In addition, rental properties are not readily convertible to alternative uses if they become unprofitable due to competition, age, decreased demand or other factors. The conversion of rental properties to alternative uses would generally require substantial capital expenditures. In particular, the Group may be required to expend funds to maintain properties, correct defects or make improvements before a rental property can be sold. The Group cannot assure the investors that it will have funds available for these purposes. These factors and any other factors that would impede the Group's ability to respond to adverse changes in the performance of its rental properties could affect the Group's ability to retain tenants and to compete with other market participants, as well as the Group's results of operations.

The Group may not be able to generate adequate returns on its properties held for long-term rental purposes.

The Group intends to continue to develop high-quality rental properties in central areas in major cities such as its Shanghai Hong Kong Plaza, Shanghai Regents Park and Shanghai May Flower Plaza in Shanghai and its Guangzhou May Flower Plaza and Guangzhou West Point in Guangzhou. Investments in rental properties are subject to varying degrees of risk. The investment returns available from investments in real estate depend, to a large extent, on the amount of capital appreciation generated, income earned from the rental of the relevant properties as well as the expenses incurred. Maximising yields from properties held for long-term investment also depends to a large extent on active ongoing management and maintenance of the properties. The ability to eventually dispose of rental properties will also depend on market conditions and levels of liquidity, which may be limited or subject to significant fluctuation in the case of certain types of commercial properties. The revenue derived from and the value of investments in rental properties may be adversely affected by a number of factors, including, but not limited to, changes in market rates for comparable rentals, the inability to collect rent due to bankruptcy or insolvency of tenants and the costs resulting from periodic maintenance, repair and re-letting. If the Group expands the property investment aspect of its business but are unable to generate adequate returns, the Group's financial condition and results of operations may be adversely affected.

The Group may be fined or its land may be forfeited by the PRC Government if it fails to comply with the terms of its land grant contracts.

Under PRC laws and regulations, if the Group fails to develop a property according to the terms of the land grant contract, including those relating to the payment of land premium, demolition and resettlement costs and other fees, the specified use of the land and the time for commencement and completion of the development, the PRC Government may issue a warning, impose a penalty, and/or take back the Group's land.

Under current PRC laws and regulations, if the Group fails to pay any outstanding land grant premium on time, the Group may be subject to a late payment penalty of 0.1 per cent. of the outstanding balance for every day of delay in payment. In addition, the PRC Government may impose an idle land fee equal to 20 per cent. of the land premium or allocation fees if (i) the Group does not commence construction for more than one year after the date specified in the relevant land grant contract, (ii) total constructed GFA is less than one-third of the total proposed GFA for the development, or (iii) the capital invested in the development is less than one-fourth of the total investment approved for the development and the development is suspended for more than one year without governmental approval. Furthermore, the PRC Government has the authority to take back the land without compensation to the Group, if the Group does not commence construction for more than two years after the date specified in the land grant contract, unless the delay is caused by force majeure or governmental action.

The Group cannot assure the investors that there will be no significant delays in the commencement of construction or the development of its properties in the future, or that its developments will not be subject to idle land penalties or be taken back by the government as a result of such delays. The imposition of substantial idle land penalties could have a material and adverse effect on the Group's business, results of operations and financial condition. If any of the Group's land is taken back by the government, the Group would not only lose the opportunity to develop the property, but it would also lose its prior investments in the development, including land premiums paid and costs incurred in connection with such land.

Disputes with joint venture partners may adversely affect the Group's business.

The Group has, and expect to have in the future, interests in PRC joint venture entities in connection with its property development plans. In certain circumstances, the Group's existing joint venture entities have relied on financial support from the Group, and the Group expects they will continue to do so. In addition, in accordance with PRC law, certain matters relating to a joint venture require the consent of all parties to the joint venture. PRC joint ventures may involve risks associated with the possibility that the Group's joint venture partners may:

- have economic or business interests or goals that are inconsistent with the Group's;
- take actions contrary to the Group's instructions or requests or contrary to its policies or objectives;
- be unable or unwilling to fulfil their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with the Group as to the scope of their responsibilities and obligations.

The Group cannot assure the investors that it will not encounter problems with respect to its joint venture partners which may have an adverse effect on the Group's business operations, profitability and prospects.

Property development in the PRC is still at an early stage and lacks adequate infrastructural support and reliable and up-to-date information on property market conditions.

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC, particularly in Guangdong Province, has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. The Group cannot predict how much and when demand will develop, as many social, political, economic, legal and other factors may affect the development of the market. The level of uncertainty is increased by limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of an effective liquid secondary market for residential property may discourage investors from acquiring new properties because resale is not only difficult, but could also be a long and costly process. The limited amount of property mortgage financing available to PRC individuals compounded by the lack of security of legal title and enforceability of property rights may further inhibit demand for residential developments. In the event of over-supply, prices may fall which may adversely affect the Group's revenues and results of operations.

Currently, reliable and up-to-date information is not generally available in the PRC and in the markets the Group operates on the amount and nature of property development and investment activities, the demand for such development, the supply of new properties being developed or the availability of land and buildings suitable for development and investment. Consequently, the Group's investment and business decisions may not always have been, and may not be in the future, based on accurate, complete and timely information. Inaccurate information may adversely affect the Group's business decisions, which could materially and adversely affect the Group's business, financial condition and results of operations.

The Group's continuing success largely depends on its senior management.

The Group's continuing success depends heavily on its senior management who have extensive experience in property development and investment business. The Group also depends on the continued service of other skilled managerial and technical personnel. Competition in the Group's industry for qualified personnel is intense. The Group's business could suffer if it loses the services of a number of key personnel and is not able to recruit quality replacements. Furthermore, as the Group's business continues to grow, it will need to recruit and train additional qualified personnel. If the Group fails to attract and retain qualified personnel, its business and prospects may be adversely affected.

The Group depends on commercial and retail tenants for its properties held for lease and may not be able to collect rent on time or at all.

For the year ended 31 July 2017, turnover from rental operations was HK$702.1 million. The financial return on these properties held for lease will be materially dependent on the business and financial stability of the relevant tenants, commercial and retail which in turn may be impacted by a number of factors, including general economic conditions, consumer confidence, the level of consumer spending, seasonality and the ability to meet rapidly changing customer demands or tastes.

The Group may face difficulties in collecting all rental payments or collecting rental payments on time. Any late payment of rent could adversely affect the Group's cash flow and results of operations. In the event of a default, the Group may incur substantial costs in protecting its investment and re-letting the property. If a lease is terminated, there can be no assurance that the Group will be able to lease the property for the rent previously received or sell the property without incurring a loss. A default by a tenant or other premature termination of a lease, or a tenant's election not to extend a lease upon its expiration or to seek concessions to continue operations, could have an adverse effect on the Group's financial condition and results of operations. Additionally, major tenant closures may result in decreased customer traffic which could adversely affect the business of the Group's other commercial tenants.

If a tenant declares bankruptcy, the Group may be unable to collect balances due under the relevant lease. Pursuant to the PRC Enterprise Bankruptcy Law (中華人民共和國企業破產法), effective 1 June 2007, if a tenant declares bankruptcy before the rent is paid, the rent becomes an ordinary, unsecured bankruptcy claim that will be paid only after certain priority claims are paid. As a result, the Group's claims for unpaid rent against a bankrupt tenant may not be paid in full. In addition, the Group would incur time and expense relating to any eviction proceedings and may be unable to collect rent during such proceedings. A tenant or lease guarantor bankruptcy could delay efforts to collect past due balances under the relevant leases, and could ultimately preclude full collection of these sums. Such an event could cause a decrease or cessation of rental payments that results in a reduction in the Group's cash flow.

In the event of a bankruptcy, the Group cannot assure the investors that the relevant tenant or its trustee will assume such a lease. If a given lease, or guaranty of a lease, is not assumed, the Group's cash flow and results of operations may be adversely affected.

The Group's profit margin is sensitive to fluctuations in the cost of construction materials.

Construction costs comprise one of the predominant components of the Group's cost of sales. Construction costs encompass all costs for the design and construction of a project, including payments to third-party contractors, costs of construction materials, foundation and substructure, fittings, facilities for utilities and related infrastructure such as roads and pipelines. Historically, construction material costs have been the principal driver of the construction costs of the Group's property development projects, with the cost of third-party contractors remaining relatively stable. However, as the construction material costs are often included in the construction costs paid to the Group's contractors, it has been difficult for the Group to estimate such costs.

Construction costs may fluctuate as a result of the price volatility of construction materials such as steel and cement. In line with industry practice, if there is a significant price fluctuation (depending on the specific terms of each contract), the Group will be required to renegotiate existing construction contracts to top up payment to, or receive refund from, the contractors, depending on the price movement. Additionally, should the Group's existing contractors fail to perform under their contracts, the Group may be required to pay more to other contractors under replacement contracts. The Group's profit margin is sensitive to changes in the market prices for construction materials and the Group's profit margins will be adversely affected if it is not able to pass all of the increased costs onto its customers.

Present or future environmental laws in the PRC may adversely affect the Group's principal business.

The Group's principal business is subject to certain PRC laws and regulations relating to environmental and safety matters. The discharge of waste and pollutants into the environment may give rise to liabilities that may require the Group to incur costs to remedy. In addition, while the Group's management believes that the Group is currently in compliance with all material applicable environmental laws, there is no assurance that any new environmental laws adopted in the future will not materially increase the Group's operating and other expenses. See "*Description of the Guarantor — Environmental Matters*".

The Group may be involved in legal and other proceedings arising from its operations from time to time.

The Group may be involved from time to time in disputes with various parties involved in the development and sale of its properties such as contractors, sub-contractors, suppliers, construction companies, purchasers, partners and others. These disputes may lead to legal and other proceedings, and may cause the Group to suffer significant costs and delays. In addition, the Group may have disagreements with regulatory bodies and governmental authorities in the course of its operations, which may subject the Group to administrative proceedings and unfavourable decrees that may result in financial losses and delays in the construction or completion of its property development projects.

Risks relating to the PRC

Substantially all of the Group's assets are located in the PRC and substantially all of its revenue is sourced from the PRC. Accordingly, the Group's results of operations, financial position and prospects are subject to a significant degree to economic, political and legal developments in the PRC.

The Group is subject to the political, legal and economic risks of doing business in the PRC.

A significant portion of the Group's operations are located in the PRC. The Group's financial condition, results of operations and future prospects depend to a large extent on the success of its operations in the PRC and are subject, to a significant degree, to the political and economic situation and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including:

- extent of government involvement;
- level of development;
- growth rate;
- economic and political structure;
- control of foreign exchange;
- allocation of resources; and
- regulation of capital reinvestment.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. In addition, the PRC Government continues to play a significant role in regulating industries and the economy through policy measures. The Group cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on its current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC Government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on the Group's operations and business development. For example, the PRC Government has in the past implemented a number of measures intended to slow down certain segments of the economy that the government believed to be overheating, including the real estate industry. These measures have included restricting foreign investment in certain sectors of the real estate industry, raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits and raising the thresholds and minimum loan interest rates for residential mortgages. These actions, as well as future actions and policies of the PRC Government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse impact on the Group's business and financial condition.

The Group's income tax obligations may increase, dividends from its PRC subsidiaries may be subject to withholding tax under PRC tax laws.

In March 2007, the National People's Congress of the PRC and its Standing Committee (the "**National People's Congress**") enacted the Enterprise Income Tax Law of the PRC (the "**EIT Law**"), which took effect on 1 January 2008. The EIT Law imposes a unified income tax rate of 25 per cent. on all PRC enterprises unless they qualify under certain limited exceptions.

The Guarantor is a holding company that is financially dependent on distributions from its subsidiaries and its business operations are principally conducted through its PRC subsidiaries. Prior to 31 December 2007, dividend payments to foreign investors made by foreign-invested enterprises, such as dividends paid to the Guarantor by its PRC subsidiaries, were exempt from PRC withholding tax. The EIT Law and the Regulations for Implementation of Enterprise Income Tax Law of the PRC (together with the EIT Law, the "**EIT Laws**"), effective 1 January 2008, provide that any dividend payment to foreign investors is subject to a withholding tax at a rate of 10 per cent. Pursuant to the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income signed on 21 August 2006, a company incorporated in Hong Kong may be subject to withholding income tax at a rate of 5 per cent. on dividends it receives from its PRC subsidiaries if it holds a 25 per cent. or more interest in that particular PRC subsidiary at the time of the distribution, or 10 per cent. if it holds less than a 25 per cent. interest in that subsidiary subject to approvals from competent PRC tax authorities, although there is uncertainty under a circular regarding whether intermediate Hong Kong holding companies will be eligible for benefits under this arrangement. According to a circular issued by SAT in October 2009, tax treaty benefits will be denied to "conduit" or shell companies without business substance.

The Guarantor and/or its non-PRC subsidiaries may be deemed to be PRC resident enterprises under the EIT Law and may be subject to PRC taxation on the Group's worldwide income.

Under the EIT Laws, enterprises established under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25 per cent. on their worldwide taxable income. For such PRC tax purposes, dividends from PRC subsidiaries to their foreign shareholders should be excluded from such taxable worldwide income. The EIT Laws provide that the "de facto management body" of an enterprise is the organisation that exercises substantial and overall management and control over the production, employees, books of accounts and properties of the enterprise. If a majority of the members of the Guarantor's management team continue to be located in China, the Guarantor and/or its non-PRC subsidiaries may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25 per cent. on the Group's worldwide income. In that case, if dividends from the Guarantor's PRC subsidiaries were subject to the withholding tax, or if the Guarantor or its non-PRC subsidiaries have income other than dividends from the Guarantor's PRC subsidiaries, the Group's profitability and cash flow may be adversely affected.

The Group's operations and financial performance could be adversely affected by labour shortages, increases in labour costs, changes to PRC labour-related laws and regulations or labour disputes.

The PRC Labour Contract Law, which became effective on 1 January 2008 (the "**Labour Contract Law**"), imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event the Group decides to significantly change or decrease its workforce, the Labour Contract Law could adversely affect the Group's ability to effect such changes in the most cost effective or timely manner to its business, hence may adversely affect the Group's financial condition and results of operations. In addition, the PRC Government has continued to introduce various new labour-related regulations after the promulgation of the Labour Contract Law. Among other things, the paid annual leave provisions require that paid annual leaves ranging from five to 15 days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times such employee's daily salary, subject to certain exceptions.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated the Social Insurance Law, which became effective on 1 July 2011 (the "**Social Insurance Law**"), to clarify the contents of the social insurance system in China. According to the Social Insurance Law and the Regulation on Management of Housing Fund, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

As a result of the implementation of these and any future rules and regulations designed to enhance the standard for labour protection, the Group's labour costs may continue to increase. Furthermore, as the interpretation and implementation of these new laws and regulations are still evolving, the Group cannot assure the investors that its employment practice will at all times be deemed fully in compliance, which may cause the Group to face labour disputes or governmental investigations. If the Group is deemed in violation of such labour laws and regulations, it could be subject to penalties, compensations to the employees and loss of reputation, and as a result the Group's business, financial condition and results of operations could be materially and adversely affected.

Further, labour disputes, work stoppages or slowdowns at the Group's operating subsidiaries or project sites or affecting the operations of its business partners could disrupt the Group's daily operation or expansion plans, which could have a material adverse effect on the Group's business and results of operations.

Interpretation of the PRC laws and regulations involves uncertainty and the current legal environment in China could limit the legal protections available to you.

The Group's core business is conducted in China and is governed by PRC laws and regulations. The Group's principal operating subsidiaries are located in China and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have limited precedential value and can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty and the legal protection available to you may be limited. Depending on the governmental agency or the presentation of an application or case to such agency, the Group may receive less favourable interpretations of laws and regulations than its competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of the Group's land use rights, entitlements under its permits, and other statutory and contractual rights and interests.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This has resulted in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction.

The national and regional economies in China and the Group's prospects may be adversely affected by natural disasters, acts of God, and the occurrence of epidemics.

The Group's business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond the Group's control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities where the Group operates, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome (or "**SARS**"), avian flu or human swine flu. For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as avian flu or human swine flu, especially in the cities where the Group has operations, may result in material disruptions to its property development and its sales and marketing, which in turn may adversely affect the Group's financial condition and results of operations.

Fluctuations in the value of Renminbi may have a material adverse effect on the Group's business.

On 21 July 2005, the PBOC announced changes to the Renminbi exchange rate regime. From that date onwards, the PRC moved into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi will no longer be pegged specifically to the U.S. dollar. The current exchange rate regime does not constitute a strict peg of the Renminbi to the basket of currencies, but instead the Renminbi is allowed to fluctuate within a narrow +/-0.3 per cent. range around a central parity rate defined as the previous day's closing RMB/US$ rate. The reference basket will be used as a guide as to whether the RMB/US$ rate should rise or fall. The PBOC has also subsequently introduced a series of measures to facilitate the reform of the Renminbi exchange rate regime, including the introduction of financial derivative products such as currency swaps in the domestic market, the relaxation on Renminbi trading by non-financial institutions and the introduction of market makers, comprising both domestic and foreign banks, for trading of Renminbi.

Substantially all of the Group's revenue and associated operating costs are denominated in Renminbi. As the exchange rate is no longer fixed, and is now allowed to fluctuate within a range around a central parity rate, any volatility of the Renminbi exchange rate in the future may affect the Group's financial condition and results of operations and any devaluation of the Renminbi against the U.S. dollar will increase the amount of Renminbi the Group needs to service its U.S. dollar obligations. Alternatively, any appreciation of the Renminbi against the U.S. dollar would make any new Renminbi-denominated investments and expenditures more costly to the Group.

There is foreign exchange control in the PRC.

The Guarantor's PRC Subsidiaries are subject to the relevant PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of Renminbi into foreign currencies. Currently, FIEs are required to apply to SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certifications, FIEs are allowed to open foreign currency accounts, including a "basic account" and a "capital account". Currently, conversion within the scope of the "basic account," for purposes such as the remittance of foreign currencies for payment of dividends, can be effected without the approval of SAFE. However, the conversion of currency in the "capital account," for capital items such as direct investments, loans and securities, still requires the approval of SAFE. According to the Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, which became effective on 1 June 2015, the settlement of foreign exchange capital in the capital accounts of foreign-invested enterprises that have been subject to the confirmation of cash capital contribution at foreign exchange authorities (or the entry registration of cash contribution at banks) may be handled at banks based on the enterprises' actual requirements for business operation. The capital funds of foreign-invested enterprises shall be used within enterprises' business scope under the authenticity and self-use principles.

The Guarantor's PRC Subsidiaries are FIEs, and the ability of such PRC Subsidiaries to pay dividends or make other distributions to the Guarantor may be restricted by, among other things, the availability of funds, and statutory and other legal restrictions, including PRC foreign exchange control restrictions. In the event that the ability of the Guarantor's PRC Subsidiaries to distribute funds to the Guarantor is restricted, it may have an adverse effect on, among others, the Guarantor's ability to distribute dividends to its shareholders in the future.

The Group is subject to significant government regulatory risks.

Property development companies in the PRC, including some of the Guarantor's PRC Subsidiaries, are subject to extensive governmental regulation in virtually all aspects of their operations, including those relating to the acquisition of land use rights, resettlement and clearance of land, the approval of property development proposals and pre-sales. There can be no assurance that these regulations will not change in the future in a manner which could adversely affect the Group's business or results of operations. In addition, the PRC Government is presently strengthening its regulation and control of the development of properties. See "*Risk Factors — The performance of the Group's property development business may be adversely affected by legal and regulatory changes introduced by the PRC Government*". While enforcement of these and other regulations is beneficial to the entire property development industry, it is possible that certain individual regulations could adversely affect property development companies, including the Group. As regulations continue to develop, prevailing industry practices may not comply with such regulations.

Profits from the Guarantor's PRC Subsidiaries available for distribution are determined under PRC GAAP.

The Group derives substantially all of its profits from the property development activities and rental income from its investment properties of its operating subsidiary companies established in the PRC. The profits available for distribution by the Guarantor are therefore dependent on, to a significant extent, the profits available for distribution by the PRC Subsidiaries to it. In turn, profits available for distribution by companies established in the PRC are determined in accordance with PRC GAAP and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. In addition, under the relevant PRC financial regulations, profits available for distribution are determined after transfers to statutory reserve funds.

The Group cannot guarantee the accuracy of facts, forecasts and other statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this Offering Circular.

Facts, forecasts and other statistics in this Offering Circular relating to China, the PRC economy, the PRC real estate industry and the selected PRC regional data have been derived from various official or other publications available in China and may not be consistent with other information compiled within or outside China. However, the Group cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by the Issuer, the Guarantor, the Company, the Joint Bookrunners and Joint Lead Managers or any of their respective affiliates or advisors (including legal advisors), or other participants in this offering and, therefore, no representation is made as to the accuracy of such facts, forecasts and statistics. The Group has, however, taken reasonable care in the reproduction and/or extraction of the official and other publications for the purpose of disclosure in this Offering Circular. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this Offering Circular may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to China, the PRC economy, the PRC real estate industry and the selected PRC regional data contained in this Offering Circular.

It may be difficult to enforce any judgments obtained from non-PRC courts against the Group in the PRC.

Substantially all of the Group's assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against the Group in the PRC any judgments obtained from non-PRC courts.

Risks Relating to the Notes and the Guarantee of the Notes

The Notes may not be a suitable investment for all investors

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

An active trading market for the Notes may not develop

The Notes are a new issue of securities for which there is currently no trading market. Application will be made to the SEHK for the Notes to be admitted for trading on the SEHK. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. None of the Joint Bookrunners and Joint Lead Managers is obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Bookrunners and Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the department store industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

Exchange rate risk

Investment in the Notes is subject to exchange rate risks. The value of the US dollar against the HK dollar, the RMB and other foreign currencies fluctuates and is affected by changes in the United States and international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the Notes in US dollars. As a result, the value of these US dollar payments may vary with the prevailing exchange rates in the marketplace. If the value of the US dollar depreciates against the HK dollar, the RMB or other foreign currencies, the value of a Noteholder's investment in HK dollar, RMB or other applicable foreign currency terms will decline.

Holding company structure

The Issuer is a direct wholly-owned subsidiary of the Guarantor formed for the sole purpose of issuing the Notes and will on-lend the entire proceeds from the issue of the Notes to the Guarantor and its subsidiaries. The Issuer does not and will not have any net assets other than such on-lent loans and its ability to make payments under the Notes depends on timely payments under such loans. In the event that the Guarantor and its subsidiaries do not make such payments due to any limitation in such loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Notes may be adversely affected.

The Issuer may be unable to redeem the Notes

On certain dates, including the occurrence of an early redemption event on a Change of Control (as defined in the Terms and Conditions) and at maturity of the Notes, the Issuer may be required to redeem all of the Notes. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to redeem the Notes by the Issuer, in such circumstances, would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Guarantor, its subsidiaries, associated companies and jointly controlled entities.

The Guarantee of the Notes will be structurally subordinated to subsidiary debt

A substantial part of the Guarantor's operations are conducted through its subsidiaries, associated companies and jointly controlled entities. Accordingly, the Guarantor is and will be dependent on the operations of its subsidiaries, associated companies and jointly controlled entities to service its indebtedness, including interest and principal on the Notes. The Notes will be structurally subordinated to the claims of all holders of debt securities and other creditors, including trade creditors, of the Guarantor's subsidiaries, and to all secured creditors of the Guarantor. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of the Guarantor, creditors of such subsidiary will generally have the right to be paid in full before any distribution is made to the Guarantor.

The insolvency laws of the British Virgin Islands, the Cayman Islands and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar

As the Issuer is incorporated under the laws of the British Virgin Islands and the Guarantor is incorporated under the laws of the Cayman Islands, any insolvency proceedings relating to the Issuer or the Guarantor, even if brought in other jurisdictions, would likely involve the British Virgin Islands or, as the case may be, the Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

If the Issuer and the Guarantor are unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated

If the Issuer and the Guarantor are unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements, contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure holders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure holders that it would be on terms that are favourable or acceptable to them.

The Notes will be represented by a Global Note Certificate and holders of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems

The Notes will be represented by beneficial interests in a Global Note Certificate. Such Global Note Certificate will be registered in the name of, and deposited with, a common depositary for Euroclear and Clearstream (the "**Clearing Systems**"). Except in the circumstances described in the Global Note Certificate, investors will not be entitled to receive individual Note certificates. The Clearing System will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by the Global Note Certificate, the Issuer, or failing which, the Guarantor will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders.

A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems to receive payments under the Notes. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing Systems to appoint appropriate proxies.

The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies

As a holding company, the Guarantor depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations, including its obligations under the Notes and the Guarantee of the Notes. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws (including in relation to those affiliates based in the PRC, capital control laws) and restrictions contained in the debt instruments of such companies. The Guarantor cannot assure that its subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. Furthermore, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments on the Notes. These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Notes and the Guarantee of the Notes then Noteholders holding not less than 5.0 per cent. of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

Risks Relating to the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking

Performance by the Company of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking is conditional upon the occurrence of an Event of Default

The Company will enter into the Keepwell Deed in connection with the issuance of the Notes. See "*Description of the Keepwell Deed*". However, under no circumstances shall the Company be required to provide any form of support under or pursuant to the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking until an Event of Default shall have occurred.

Neither the Keepwell Deed nor the Deed of Equity Interest Purchase Undertaking from the Company is a guarantee of the payment obligations of the Issuer and the Guarantor under the Notes and the Guarantee of the Notes

The Company will enter into the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking in connection with the issuance of the Notes. See "*Description of the Keepwell Deed*" and "*Description of the Deed of Equity Interest Purchase Undertaking*". None of the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking or any actions taken by the Company thereunder can be deemed as a guarantee by the Company for the payment obligations of the Issuer under the Notes or the Guarantor under the Guarantee of the Notes. Accordingly, pursuant to the terms of the Keepwell Deed, the Company will only be obliged to make sufficient funds available to the Issuer and the Guarantor or, in the case of the Deed of Equity Interest Purchase Undertaking, undertake certain specified actions, rather than assume the payment obligation as in the case of a guarantee. Furthermore, subject to the terms of the Keepwell Deed, the rights of the Noteholders to obtain any remedy, including specific performance, or to enforce the obligations of the Company under the Keepwell Deed may be subject to procedural and practical difficulties.

In addition, under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor, among other things, to cause the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Notes and the Guarantee of the Notes. However, any claim by the Issuer, the Guarantor or the Company in relation to the Keepwell Deed or the Deed of Equity Interest Undertaking will be effectively subordinated to all existing and future obligations of the Company's subsidiaries (which do not provide a guarantee in respect of the Notes).

Performance by the Company of its undertaking under the Deed of Equity Interest Purchase Undertaking may be subject to consent from third party creditors and shareholders, and may also be restricted if any of the equity interests are secured in favour of third party creditors

Upon the occurrence of an Event of Default, the Company has agreed to use its best endeavours (to the extent possible) to as soon as reasonably practicable obtain all relevant Approvals (as defined in the Deed of Equity Interest Purchase Undertaking) applicable to it in relation to the entry into an Equity Interest Transfer Agreement to purchase or procure a Subsidiary of the Company to enter into the Equity Interest Transfer Agreement to purchase:

- the Equity Interest held directly by the Issuer and/or the Guarantor and/or any of their respective Subsidiaries, as designated by the Company and notified in writing to the Noteholders from time to time but in any event within five Business Days following the receipt of all Approvals; and

- in the absence of such designation and notification to the Noteholders, the Equity Interest held directly by all Subsidiaries of the Guarantor.

Under the Terms and Conditions and the Keepwell Deed, there are no restrictions on the Company or its subsidiaries entering into financing agreements with such non-disposal or other restrictive covenants or securing the equity interests of any member of the Group in favour of its creditors.

In the event the obligation to purchase under the Deed of Equity Interest Purchase Undertaking becomes effective, there is no assurance that the Relevant Transferor (as defined in the Deed of Equity Interest Purchase Undertaking) will be able to obtain any required consents from its creditors or that it will be able to arrange for any existing security arrangement to be released in order for the sale of the equity interest to proceed. If the Relevant Transferor is not able to do so, it may need to repay the indebtedness owed to its third party creditors in order to be able to sell the relevant equity interests to the Company. In the event that the required consents or waivers from third party creditors are not able to be obtained and in the case of third party creditors, the relevant indebtedness cannot be repaid in the timely manner, the sale of the equity interest may not be able to proceed and the Issuer and the Guarantor may have insufficient funds to discharge the Event of Default Amount.

In addition, the sale of the equity interests in certain non-wholly-owned companies may be subject to pre-emptive rights or other restrictions in such company's articles of association, shareholders' agreement or otherwise that would require the selling shareholder to obtain consent or waiver from other third party shareholders before any equity interest can be sold to the Company. In the event the obligation to purchase under the Deed of Equity Interest Purchase Undertaking becomes effective, there is no assurance that any required consents or waivers can be obtained from third party shareholders in a timely manner or at all.

Performance by the Company of its obligation under the Keepwell Deed and undertaking under the Deed of Equity Interest Purchase Undertaking may be subject to the approvals of the respective shareholders of the Company, its holding company, the Guarantor and any Listed Subsidiaries (as defined in the Deed of Equity Interest Purchase Undertaking)

In the event that the Company determines or is obliged to make the parent investment in the Issuer and/or the Guarantor pursuant to the terms of the Keepwell Deed, the parent investment by the Company may, depending on the manner in which the parent investment is made, constitute (i) a notifiable transaction for the Company, its holding company (whose shares are also listed on the Main Board of the SEHK), the Guarantor under Chapter 14 of the Listing Rules, in which case approvals by the respective shareholders of the Company, its holding company and the Guarantor may be required; and (ii) connected transactions for the Guarantor under Chapter 14A of the Listing Rules, in which case approvals by the independent shareholders of the Guarantor may be required.

In addition, the sale and purchase of the equity interests of indirectly held subsidiaries of the Company from the Relevant Transferor may constitute (i) notifiable transactions for the Company, its holding company, the Guarantor and any Listed Subsidiaries under Chapter 14 of the Listing Rules, in which case approvals by the respective shareholders of the Company, its holding company, the Guarantor and any Listed Subsidiaries may be required; and (ii) connected transactions for the Guarantor and any Listed Subsidiaries under Chapter 14A of the Listing Rules, in which case approvals by the respective independent shareholders of the Guarantor and any Listed Subsidiaries may be required.

Although the Company is required to use its best endeavours to obtain all relevant Approvals applicable to it, and the Guarantor is required to use its best endeavours to obtain or procure to be obtained all relevant Approvals applicable to it and any Listed Subsidiaries, in relation to (i) the parent investment in the Issuer and/or the Guarantor; and (ii) the sale and purchase of the equity interests of indirectly held subsidiaries of the Company from the Relevant Transferor, there is no assurance that such approvals will be obtained in a timely manner or at all.

The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Notes, substantially as they will appear on the reverse of each of the individual certificates evidencing the Notes.

The U.S.$[•••] [•••] per cent. Guaranteed Notes due [•••] (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 *(Further issues)* and forming a single series therewith) of Lai Fung Bonds (2018) Limited (the "**Issuer**") are constituted by a deed of covenant dated [[•••] January] 2018 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of (a) a deed of guarantee dated [[•••] January] 2018 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by Lai Fung Holdings Limited (the "**Guarantor**") and, (b) a fiscal agency agreement dated [[•••] January] 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**"), The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expressions include any successor registrar and fiscal agent, as the case may be, appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them.

The Notes and the Guarantee of the Notes also have the benefit of a keepwell deed dated on or about [[•••] January] 2018 (as amended, restated, replaced or supplemented from time to time, the "**Keepwell Deed**") entered into by the Issuer, the Guarantor and Lai Sun Development Company Limited (the "**Company**") and (ii) a deed of equity interest purchase undertaking dated on or about [[•••] January] 2018 (as amended, restated, replaced or supplemented from time to time, the "**Deed of Equity Interest Purchase Undertaking**") entered into by the Issuer, the Guarantor and the Company. Certain provisions of these Conditions are summaries of the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking applicable to them. Copies of the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination, Status and Guarantee

(a) *Form and denomination:* The Notes are in registered form in the denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes:* The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3(a) (*Covenants — Negative pledge*)) unsecured obligations of the Issuer which will at all times rank pari passu without any preference or priority among themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes:* The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unconditional, unsubordinated and (subject to Condition 3(a) (*Covenants — Negative pledge*)) unsecured obligations of the Guarantor which will at all times rank at least pari passu with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Agency Agreement. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream and will be exchangeable for individual Note Certificates only in the circumstances set out therein.*

2. Register, Title and Transfers

(a) *Register:* The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

(b) *Title:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers:* Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed and signed by the Noteholder or his attorney duly authorised in writing, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however*, that a Note may not be transferred unless the principal amount of the Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor. No transfer of title to a Note will be valid unless and until entered on the Register.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (or its equivalent) (free of charge to the Holder and at the Issuer's (failing which the Guarantor's) expense or by airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but upon (i) payment (or the giving of such indemnity or security as the Issuer, the Registrar or (as the case may be) such Transfer Agent may require) in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer, (ii) the Registrar or (as the case may be) such Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application, and (iii) the Issuer and/or the Registrar and/or the relevant Transfer Agent being satisfied that the Regulations (as defined in the Agency Agreement) concerning the transfer of Notes have been complied with.

(f) *Closed periods:* Noteholders may not require transfers to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes;

(ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 5(b) (*Redemption for tax reasons*); and

(iii) after a Change of Control Put Exercise Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 5(c) (*Redemption for Change of Control*).

(g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Fiscal Agent and the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder and at the Issuer's (failing which the Guarantor's) expense) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Covenants

(a) *Negative pledge:* So long as any Note remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of the Guarantor's Material Subsidiaries (as defined in Condition 8 (*Events of Default*)) (other than Listed Subsidiaries) will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

(b) *Parent Investment:* Upon the occurrence of an Event of Default, the Company has undertaken in the Keepwell Deed to use its best endeavours (to the extent possible) to as soon as reasonably practicable obtain all relevant Approvals in relation to an investment in the Issuer and/or the Guarantor (the "**Parent Investment**"). In relation to the Parent Investment, and subject to having obtained all relevant Approvals, the Company shall promptly after obtaining the relevant Approvals make available to the Issuer and/or the Guarantor sufficient funds to satisfy the Event of Default Amount (as defined in the Keepwell Deed).

(c) *Equity Interest Purchase Undertaking:* Upon the occurrence of an Event of Default, the Company has undertaken in the Deed of Equity Interest Purchase Undertaking to use its best endeavours (to the extent possible) to as soon as reasonably practicable obtain all relevant Approvals to purchase equity interests in accordance with the Deed of Equity Interest Purchase Undertaking. Upon the completion of any Purchase (as defined in the Deed of Equity Interest Purchase Undertaking), the Issuer and the Guarantor has undertaken in the Deed of Equity Interest Purchase Undertaking to, in the event that a Relevant Transferor (as defined in the Deed of Equity Interest Purchase Undertaking) is not the Issuer or the Guarantor, procure such Relevant Transferor to promptly on-lend or distribute in full the relevant portion of the Purchase Price (as defined in the Deed of Equity Interest Purchase Undertaking) received by such Relevant Transferor to the Issuer or the Guarantor prior to any other use, disposal or transfer of the proceeds received.

For a description of the terms of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, see the sections "Description of Keepwell Deed" and "Description of the Deed of Equity Interest Purchase Undertaking".

(d) *Use of Proceeds Received pursuant to the Keepwell Deed and Deed of Equity Interest Purchase Undertaking:* Each of the Issuer and the Guarantor shall take all actions necessary for the proceeds received under the Deed of Equity Interest Purchase Undertaking, the Parent Investment and/or the Purchase(s) to be applied in and towards the Event of Default Amount.

In these Conditions:

"**Approvals**" means all necessary corporate, regulatory or governmental approvals, consents, licences, orders, permits, registrations, filings, clearances applicable to the Company, its holding company, any of the Company's Subsidiaries, the Guarantor or the Listed Subsidiaries (including but not limited to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited);

"**Guarantee**" means, in relation to any indebtedness of any Person, any obligation of another Person to pay such indebtedness including (without limitation):

(a) any obligation to purchase such indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

(c) any indemnity against the consequences of a default in the payment of such indebtedness; and

(d) any other agreement to be responsible for such indebtedness;

"**Listed Subsidiaries**" means any of the Guarantor's Subsidiaries which, from time to time, are listed on The Stock Exchange of Hong Kong Limited or any other equivalent stock exchange (including any of their respective Subsidiaries from time to time) and each, a "**Listed Subsidiary**";

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Relevant Indebtedness**" means any indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) having an original maturity of more than one year from its date of issue but shall not include indebtedness under any secured transferable loan facility (which term shall, for the avoidance of doubt, mean any agreement for or in respect of indebtedness for borrowed money entered into with one or more banks and/or financial institutions whereunder rights and (if any) obligations may be assigned and/or transferred);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) if the first Person owns or controls (either directly or indirectly through one or more Subsidiaries) more than 50.0 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of the second person; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles of Hong Kong or any other relevant jurisdiction, from time to time, consolidated with those of the first Person.

4. Interest

The Notes bear interest from [•••] 2018 (the "**Issue Date**") at the rate of [•••] per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on [•••] and [•••] in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholder under these Conditions).

The amount of interest payable on each Interest Payment Date shall be U.S.$[•••] in respect of each Note of U.S.$200,000 denomination and U.S.$[•••] in respect of each Note of U.S.$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on [•••], subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, if:

(i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after [•••] 2018; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after [•••] 2018; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent:

(A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal or other professional advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption for Change of Control:* At any time following the occurrence of a Change of Control, the Holder of any Note will have the right, at such Holder's option, to require the Issuer to redeem all, but not some only, of that Holder's Notes on the Change of Control Put Date at 101.0 per cent. of their principal amount, together with accrued interest up to, but excluding, the Change of Control Put Date. To exercise such right, the holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Change of Control Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 14 (Notices). The "**Change of Control Put Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Noteholders and the Fiscal Agent in accordance with Condition 14 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 5(c) (*Redemption for Change of Control*).

In this Condition 5(c) (Redemption for Change of Control):

a "**Change of Control**" occurs when:

(i) the Controlling Shareholder ceases to hold, directly or indirectly, at least 30.0 per cent. of the voting rights of the issued share capital of the Company (where, for the purpose of this paragraph (i), "**indirectly**" means the Controlling Shareholder holds 50.0 per cent. or more of the voting rights in a corporation which itself, or with the Controlling Shareholder, holds 30.0 per cent. or more of the voting rights in another corporation or chain of corporations and where each corporation in the chain of corporations, or with the Controlling Shareholder, holds 30.0 per cent. or more of the voting rights in the corporation immediately below such corporation and one such corporation, or with the Controlling Shareholder, holds 30.0 per cent. or more of the voting shares in the Company); or

(ii) the Controlling Shareholder ceases to hold, directly or indirectly, at least 30.0 per cent. of the voting rights of the issued share capital of the Guarantor (where, for the purpose of this paragraph (ii), "**indirectly**" means the Controlling Shareholder holds 50.0 per cent. or more of the voting rights in a corporation which itself, or with the Controlling Shareholder, holds 30.0 per cent. or more of the voting rights in another corporation or chain of corporations and where each corporation in the chain of corporations, or with the Controlling Shareholder, holds 30.0 per cent. or more of the voting rights in the corporation immediately below such corporation and one such corporation, or with the Controlling Shareholder, holds 30.0 per cent. or more of the voting shares in the Guarantor); or

(iii) any Person or Persons, other than the Controlling Shareholder, acting together acquires Control of the Guarantor or the Company if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Guarantor or, as the case may be, the Company, on the Issue Date; or

(iv) the Guarantor or the Company consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person which is not Controlled by the Controlling Shareholder, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or, as the case may be, the Company or, in each case, the successor entity.

"**Control**" means the acquisition or control of more than 30.0 per cent. of the voting rights of the issued share capital of the Guarantor or the Company, as the case may be, or the right to appoint and/or remove all or the majority of the members of the Guarantor's or the Company, as the case may be, board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms "**Controlling**" and "**Controlled**" shall have meanings correlative to the foregoing.

"**Controlling Shareholder**" means the aggregate shareholdings of Dr. Lam Kin Ngok, Peter ("**Dr. Peter Lam**") and:

(i) any heir, estate, lineal descendent (or spouse thereof), spouse or parent of Dr. Peter Lam; or

(ii) any trust, corporation, partnership or other entity, of which the direct or indirect beneficiaries, equity holders, partners, owners or Persons are Dr. Peter Lam and/or such other Persons referred to in paragraph (i) above.

a "**Person**", as used in this Condition 5(c) (*Redemption for Change of Control*), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

(d) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (c) (*Redemption for Change of Control*) above.

(e) *Purchase:* The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes on the open market or otherwise and at any price.

(f) *Cancellation:* All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6. Payments

(a) *Principal:* Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest:* Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent. So long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

(c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, at the expense of the Noteholder) (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date:* Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, at the expense of such Noteholder) to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the Cayman Islands or Hong Kong or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) *Other connection:* held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or, as the case may be, payments made by the Guarantor by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) *Presentation more than 30 days after the Relevant Date:* where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands, the Cayman Islands or Hong Kong respectively, references in these Conditions to the British Virgin Islands, the Cayman Islands or Hong Kong shall be construed as references to the British Virgin Islands, the Cayman Islands or (as the case may be) Hong Kong and/or such other jurisdiction.

8. Events of Default

If any of the following events occurs:

(a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes within three days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within seven days of the due date for payment thereof; or

(b) *Breach of other obligations:* the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant, the Guarantee of the Notes, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer, Guarantor or Material Subsidiary:*

(i) any indebtedness of the Issuer, the Guarantor or any of their respective Material Subsidiaries (other than Listed Subsidiaries) is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiary (other than Listed Subsidiaries) or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Material Subsidiaries (other than Listed Subsidiaries) fails to pay when due any amount payable by it under any Guarantee of any indebtedness,

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$15.0 million (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment:* one or more judgment(s) or order(s) for the payment of an individual amount in excess of U.S.$15.0 million (or its equivalent in any other currency or currencies) is rendered against the Issuer, the Guarantor or any of their Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced:* a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary; or

(f) *Insolvency, etc.:* (i) the Issuer, the Guarantor or any Material Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any Material Subsidiary or the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any Material Subsidiary takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any Guarantee of any indebtedness given by it; or

(g) *Winding up, etc.:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any Material Subsidiary (otherwise than, in the case of a Subsidiary of the Issuer or a Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent) or the Issuer, the Guarantor or any Material Subsidiary ceases to carry on all or substantially all of its business (otherwise than, in the case of a Subsidiary of the Issuer or a Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent or as a result of disposal on arm's length terms or as approved by an Extraordinary Resolution of the Noteholders); or

(h) *Analogous event:* any event occurs which under the laws of the British Virgin Islands, the Cayman Islands or Hong Kong has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Failure to take action etc:* any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, the Deed of Covenant, the Deed of Guarantee, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Note Certificates, the Deed of Covenant, the Deed of Guarantee, the Keepwell and the Deed of Equity Interest Purchase Undertaking admissible in evidence in the courts of the British Virgin Islands, the Cayman Islands and Hong Kong is not taken, fulfilled or done; or

(j) *Unlawfulness:* it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Covenant, the Deed of Guarantee, the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking; or

(k) *Guarantee not in force:* the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or

(l) *Government intervention:* (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or

(m) *Keepwell Deed and Deed of Equity Interest Purchase Undertaking:* either of the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking (i) is not or is claimed by the Company not to be in full force and effect or is not capable of being performed in a timely manner by reason of its winding up, liquidation or dissolution, in each case accordance with its terms, or (ii) the Keepwell Deed or the Deed of Equity Interest Purchase Undertaking is modified, amended or terminated other than strictly in accordance with its respective terms; or

(n) *Controlling shareholder:* the Issuer ceases to be a wholly-owned Subsidiary of the Guarantor,

then Noteholders holding not less than 5.0 per cent. of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

The Agents need not do anything to ascertain whether any Event of Default has occurred and will not be responsible to Noteholders or any other person for any loss arising from any failure by it to do so, and, unless and until the Agent otherwise has notice in writing to the contrary, the Agent may assume that (i) no such event has occurred and (ii) that the Issuer is performing all of its obligations under the Agency Agreement and the Conditions.

In these Conditions, "**Material Subsidiary**" means any Subsidiary of the Guarantor:

(i) whose total turnover (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) represent not less than 10.0 per cent. of the consolidated total turnover, or, as the case may be, the consolidated total assets of the Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Guarantor, provided that:

(A) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Guarantor relate for the purpose of applying each of the foregoing tests, the reference to the Guarantor's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Guarantor;

(B) if at any relevant time in relation to the Guarantor or any Subsidiary no financial statements are prepared and audited, its total turnover and total assets (consolidated, if applicable) shall be determined on the basis of pro forma consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(C) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Guarantor, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Guarantor; or

(ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (A) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (B) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

A report by two of the directors of the Guarantor that in their opinion (making such adjustments (if any) as they shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor and the Noteholders.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date. The Agents shall not be responsible or liable for any amounts so prescribed.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Modification

(a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification by Extraordinary Resolution of any provision of these Conditions. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however,* that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the percentage of Notes outstanding required to call an Event of Default, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of the Holders of not less than 90.0 per cent. of the aggregate principal amount of Notes outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification:* The Notes, these Conditions, the Deed of Covenant, the Deed of Guarantee, the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

13. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail (at the Issuer's, failing which, the Guarantor's expense) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. So long as the Global Note Certificate is held in its entirety on behalf of Euroclear and Clearstream, Luxembourg any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

15. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. Governing Law and Jurisdiction

(a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum:* Each of the Issuer and the Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England:* Condition 16(b) (English courts) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (*Governing Law and Jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Elemental CoSec Limited at 27 Old Gloucester Street, London WC1N 3AX, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

THE GLOBAL NOTE CERTIFICATE

The Global Note Certificate contains the following provisions which apply to the Notes in respect of which they are issued while they are represented by the Global Note Certificate, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meaning in the paragraphs herein.

The Notes will be represented by a Global Note Certificate which will be registered in the name of, and deposited with, The Hongkong and Shanghai Banking Corporation Limited as common depositary for Euroclear and Clearstream.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) any Global Note Certificate have not been issued and delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes evidenced by the Global Note Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Note Certificate on the due date for payment in accordance with the terms of the Global Note Certificate, then, at 5:00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (Hong Kong time) on such due date (in the case of (b) above) the Registrar shall in respect of each person shown in the records of Euroclear and/or Clearstream (or any other relevant clearing system) as being entitled to interest in the Notes (each an "**Accountholder**"), enter in the Register the name of such Accountholder as the holder of direct rights under the deed of covenant dated [•••] 2018 (the "**Deed of Covenant**") in respect of the Notes in an aggregate principal amount equal to the principal amount shown in the records of Euroclear and/or Clearstream (or any other relevant clearing system) of such Accountholder's interest in the Notes. To the extent that the Registrar makes such entries in the Register, the holder will have no further rights under the Global

Note Certificate, but without prejudice to the rights which the holder or Accountholders may have under the Deed of Covenant. Under the Deed of Covenant, Accountholders will acquire directly against the Issuer, subject to their rights being entered in the Register as described above and subject as provided in the Deed of Covenant, all those rights to which they would have been entitled if, immediately before the date on which the Registrar is required to enter in the Register the rights of the Accountholders, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and Clearstream or any other relevant clearing system (as the case may be).

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Note Certificate "**business day**" means any day which is a day on which dealings in foreign currencies may be carried on in New York City and Hong Kong.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 5(c) *(Redemption for Change of Control)* the Holder of the Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note Certificate and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 14 *(Notices)*, so long as the Global Note Certificate is held on behalf of Euroclear and Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear and Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds from the issue of the Notes is estimated to be approximately US$[•••] million after deducting underwriting fees and expenses. The net proceeds will be lent to the Guarantor and/or its subsidiaries for the refinancing of the CNY1,800,000,000 6.875 per cent. Senior Notes due 2018 (the "**2013 Fixed Rate Senior Notes**") and general corporate purposes.

The Guarantor

As of 31 July 2017, the authorised share capital of the Guarantor was HK$2 billion divided into 20 billion shares of HK$0.1 par value each and the issued share capital of the Guarantor was HK$1.6 billion consisting of 16.3 billion shares of HK$0.1 par value each.

The following table set forth the consolidated capitalisation and indebtedness of the Group as of 31 July 2017 and as adjusted to give effect to the issue of the Notes. These tables should be read in conjunction with the financial statements of the Group and the accompanying notes included in this Offering Circular. Other than this issuance of the Notes, there has been no material change in the consolidated capitalisation and indebtedness of the Group since 31 July 2017.

	As of 31 July 2017			
	Actual		**As adjusted**[1]	
	HK$	*US$*	*HK$*	*US$*
	(in millions)		(unaudited) *(in millions)*	
Cash and cash equivalents	2,057.3	263.8	[•••]	[•••]
Short-term borrowings				
Interest-bearing bank loans, secured[2]	82.0	10.5	82.0	10.5
Unsecured[3]	192.7	24.7	192.7	24.7
2013 Fixed Rate Senior Notes	2,080.4	266.7	2,080.4	266.7
Total short-term borrowings	2,355.1	301.9	2,355.1	301.9
Long-term borrowings[4]				
Interest-bearing bank loans, secured[5] [6]	2,814.1	360.8	2,814.1	360.8
Unsecured[7]	922.2	118.2	922.2	118.2
Notes to be issued[8]	—	—	[•••]	[•••]
Total long-term borrowings	3,736.3	479.0	[•••]	[•••]
Capital and reserves				
Issued capital (HK$0.10 par value per share, 16,285,086,736 shares issued and fully paid)	1,628.5	208.8	1,628.5	208.8
Share premium account	4,075.3	522.5	4,075.3	522.5
Reserves[9]	1,198.4	153.6	1,198.4	153.6
Retained earnings	7,681.9	984.9	7,681.9	984.9
Total capital and reserves attributable to owners of the Guarantor	14,584.1	1,869.8	14,584.1	1,869.8
Total capitalisation[10]	18,320.4	2,348.8	[•••]	[•••]

Notes:

(1) The adjusted data reflect the gross proceeds from the Notes (before deducting fees and other expenses payable in connection with this offering) and do not take into account the future application of any of the proceeds from this offering.

(2) Secured borrowings by the Guarantor's PRC Subsidiaries accounted for HK$38.3 million (US$4.9 million).

(3) Borrowings by the Guarantor's PRC Subsidiaries accounted for HK$192.7 million (US$24.7 million).

(4) As of 31 July 2017, the Group's consolidated capital commitments were HK$2,697.2 million (US$345.8 million). The Guarantor's PRC Subsidiaries have significant contingent liabilities in respect of pre-registration end buyer mortgages.

(5) Borrowings by the Guarantor's PRC Subsidiaries accounted for HK$1,418.4 million (US$181.8 million).

(6) This amount does not include any additional borrowings or repayments after 31 July 2017.

(7) Borrowings by the Guarantor's PRC Subsidiaries accounted for HK$109.2 million (US$14.0 million).

(8) This amount represents the aggregate principal amount of the Notes.

(9) Reserves as of 31 July 2017 included share option reserve, hedge reserve, exchange fluctuation reserve, capital reserve and statutory reserve.

(10) Total capitalisation comprises long-term borrowings and total capital and reserves.

The Issuer

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of a single class with a par value of US$1.00 each and 1 share has been duly authorised and issued to the Guarantor and is fully paid. The Issuer does not have any debt outstanding other than the Notes to be issued under this Offering Circular.

Since 8 December 2017, the date of its incorporation, the Issuer has been dormant and no financial statements of the Issuer have been prepared. Under BVI law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not purpose to publish, any financial statements in the future.

DESCRIPTION OF THE ISSUER

Formation

Lai Fung Bonds (2018) Limited is a company incorporated on 8 December 2017 in the BVI with limited liability under the BVI Business Companies Act, 2004 (BVI Company Number: 1963405). Its registered office is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Issuer is a direct wholly-owned subsidiary of the Guarantor.

Business Activity

The Issuer was incorporated to raise financing for the Group pursuant to the unrestricted objects and powers set out in its memorandum of association. The Issuer does not sell any products or provide any services and it has undertaken no business activities since the date of its incorporation, other than those incidental to its incorporation and establishment as a direct wholly-owned subsidiary of the Guarantor and those incidental to the issue of the Notes.

Financial Statements

Under the laws of the BVI, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep such records that are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

Directors and Officers

The directors of the Issuer are Chew Fook Aun, Lam Hau Yin, Lester, Cheng Shin How and Lee Tze Yan, Ernest. None of the directors of the Issuer holds any shares or options to acquire shares of the Issuer. There are no conflicts of interest between the duties to the Issuer of the persons listed above and their private interests and duties.

The Issuer does not have any employees and has no subsidiaries.

Capital

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of a single class with a par value of US$1.00 each and 1 share has been duly authorised and issued to the Guarantor and is fully paid. The register of members of the Issuer is maintained at its registered office in the BVI at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

DESCRIPTION OF THE GUARANTOR

Overview

The Group has been successfully developing and managing high-quality real estate projects in China for more than 20 years and has a number of projects in various stage of development in Shanghai, Guangzhou, Zhongshan and Hengqin. The Group's products include high-quality residential, office and commercial properties, hotels and serviced apartments. With its rental strategy, the Group also specialises in developing and managing attractive and well-located office and retail properties and serviced apartments for long-term rental purposes. The Group's residential projects typically incorporate a variety of amenities and public facilities and are located in prime locations within the inner ring roads and along major transportation routes, including the subway and railway lines, of these cities.

As of 31 July 2017, the Group maintained a rental property portfolio (excluding car-parking spaces) comprised of completed rental properties with attributable GFA of approximately 3.2 million sq. ft. The Group's rental property portfolio consists of its investment properties, as well as a hotel, serviced apartments and other spaces from which it collects rent. The Group's prime investment properties include Shanghai Hong Kong Plaza, Shanghai May Flower Plaza, Guangzhou May Flower Plaza and Guangzhou Lai Fung Tower, which are well-known commercial properties in their respective local markets and have generated stable and recurrent rental income for the Group at close to full occupancies. For the years ended 31 July 2015, 2016 and 2017, turnover from the Group's rental properties was approximately HK$626.0 million, HK$629.4 million and HK$702.1 million, respectively. For these same periods, the Group's rental income as a percentage of its consolidated turnover was approximately 32.9 per cent., 30.8 per cent. and 52.9 per cent., respectively. The Group's rental income interest coverage, which is rental income divided by total interest expenses (interest and bank financing charges paid), was 2.1x, 2.2x and 2.2x for the years ended 31 July 2015, 2016 and 2017, respectively.

The Group's property development business has a regional focus in Shanghai, Guangzhou, Zhongshan and Hengqin. The Group's currently have five property development projects in various stages of development, of which two are located in Shanghai, one in Guangzhou, one in Zhongshan and one in Hengqin, with a total attributable GFA of approximately 5.7 million sq.ft. as at 31 July 2017 excluding car-parking spaces and ancillary facilities. Construction works of Phase 1 of the Novotown project in Hengqin, Zhuhai commenced at the end of 2015 and the completion is expected to be by the end of 2018. The acquisition of the 6th to 11th floors of Hui Gong Building that is physically connected to Northgate Plaza I in Shanghai, together with the right to use 20 car-parking spaces in the basement ("**Hui Gong Building**") was completed in September 2016. The Group plans to redevelop Shanghai Northgate Plaza I, Northgate Plaza II and the Hui Gong Building together under a comprehensive redevelopment plan and therefore enhance the overall value of the combined development. Demolition of Northgate Plaza I and Hui Gong Building has been completed in May 2017 and foundation works commenced in September 2017. Completion is expected to be in the second quarter of 2021. As of 31 July 2017, the Group held a total attributable GFA of approximately 0.8 million sq. ft. of completed projects for sale, excluding car-parking spaces and ancillary facilities.

The Group intends to continue to grow its property development operations by selectively acquiring or investing in greenfield and partially completed projects that fit with its strategic objectives. The Group intends to leverage the experience of CapitaLand, who is one of the largest property developers in Asia and one of its substantial shareholders, to develop larger-scale projects in the PRC. The Group's regional focus and rental-led strategy has demonstrated resilience in recent years and going forward, the Group intends to retain any sizeable commercial and retail properties to grow its rental property portfolio, thus increasing its recurrent rental income base, while residential projects will be built primarily for sale. Have said that, property sales have been, and are expected to continue to be, in the near future, an important source of income. For the years ended 31 July 2016 and 2017, consolidated turnover from property sales was approximately HK$1,414.1 million and HK$624.6 million, respectively. For these same periods, property sales as a percentage of the Group's consolidated turnover was approximately 69.2 per cent. and 47.1 per cent., respectively. For the years ended 31 July 2016 and 2017, the Group's revenue from its joint venture operations (including car park sales) was HK$711.8 million and HK$1,932.7 million, respectively.

As of 31 July 2017, the Group's equity attributable to owners of the Company was HK$14,584 million. For the years ended 31 July 2016 and 2017, the Group's consolidated turnover was HK$2,043.5 million and HK$1,326.7 million, respectively, and its consolidated profit attributable to owners of the Company was HK$873.5 million and HK$1,477.5 million, respectively.

Recent Developments

Share Consolidation

The Guarantor announced in July 2017 its proposal to consolidate every 50 issued and unissued ordinary shares of HK$0.10 each in its share capital into one ordinary share of HK$5.00 each in its share capital (the "**Share Consolidation**"). The Guarantor's shareholders approved the Share Consolidation at its extraordinary general meeting held on 14 August 2017. The adjustments to the Guarantor's existing applicable shares subject to the share options granted in 2012, 2013 and 2015 have taken effect from 15 August 2017.

Novotown

On 22 November 2017, the Group entered into a cooperation agreement with HICMS and ILAH bringing Harrow International China Group, the world's leading learning institution, to set up Innovation Leadership Academy Hengqin ("**School**") in Phase II of the Novotown project in Hengqin, Zhuhai. The cooperation aims to enhance the general education experience in Hengqin and across the region catering for learning needs of local and overseas families residing within the Pearl River Delta area, including Hengqin, Zhuhai, Macau and Greater Bay Area. Discussions between the Group and the Hengqin government regarding the land concession and the Phase II development of the Novotown are ongoing.

Competitive Strengths

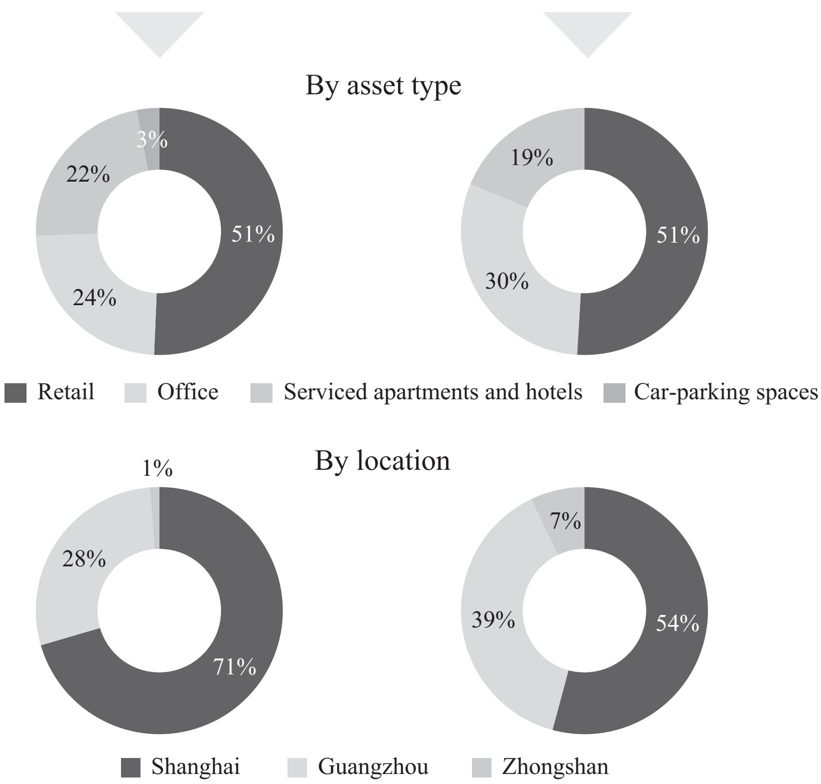
The Group believes that it is well-positioned to take advantage of the continued development of the property market in the PRC by leveraging the following competitive strengths:

Strong recurrent rental income stream

The Group has carefully maintained a diversified rental property portfolio that includes retail and office properties and hotels and serviced apartments, which are held for long-term rental purposes. Major rental properties in the Group's portfolio are located in downtown areas and accessible by different transportation networks. Rental revenue has been increasing steadily as a whole with almost full occupancy in all the major properties. The steady rental revenue stream helps to reduce the financial risks inherent in relying on income primarily from property development, which include the cyclicality of the property development business. For the years ended 31 July 2016 and 2017, the Group's rental income was HK$629.4 million and HK$702.1 million, respectively, and its rental income as a percentage of its turnover amounted to approximately 30.8 per cent. and 52.9 per cent., respectively. Rental income growth was partially offset by depreciation of Renminbi in recent years. Excluding the effect of currency translation against a depreciated Renminbi, the growth for Renminbi denominated rental income for the year ended 31 July 2017 as compared with 2016 was 17.0 per cent. By positioning itself in this manner, the Group has enhanced the stability of its long-term revenue streams by maintaining a significant portion of its earnings and cash flow from recurrent rental income from its rental property portfolio, which enables the Group to better endure volatile market conditions.

2017 rental income[(1)]
HK$702 million

Attributable GFA of major rental properties[(2)]
3.2 million sq. ft.



Note:

1. Others include rental income from hotels and car-parking spaces.

2. Attributable GFA of major rental property interests as at 31 July 2017 excluding car-parking spaces.

Strategic for-sale development projects enhancing corporate franchises

The Group believes that the quality of its for-sale property development projects has enabled it to achieve a strong market position and serves as a strong complementary revenue stream in addition to its rental-led strategy. The Group plans its property development projects to cater to the needs and expectations of its potential buyers in the middle- to high-end property market. For instance, Guangzhou Eastern Place was one of the first residential developments in Guangzhou to have an enlarged clubhouse facility which includes an Olympic-sized swimming pool and a gym, as well as an on-site kindergarten. Similar facilities are also provided at the Shanghai Regents Park development.

The Group believes it will be able to leverage these well-known properties to achieve higher levels of pre-sales for its up-coming projects in Shanghai, Guangzhou, Zhongshan and Hengqin.

Quality land bank

The Group believes that a quality land bank is one of the most important characteristics for a property developer and that one of the key factors of its success has been its ability to acquire sites at competitive prices at opportune times, thereby enabling the Group to achieve a reasonable return on the properties we have developed and sold or held. As of 31 July 2017, the Group held land under development with a total attributable GFA of approximately 5.7 million sq. ft., the attributable GFA of which the Group intended to use for rental and for sale purposes was approximately 3.7 million sq. ft. and 2.0 million sq. ft., respectively. Most of the land the Group holds is centrally located within a city's inner ring roads in prime commercial or residential areas which have access to mass transit systems, which the Group acquired when the property values in Shanghai, Guangzhou, Zhongshan and Hengqin were substantially lower than the current property values. The Group believes this has allowed it to achieve attractive unit land costs relative to the current market values for its property projects, therefore mitigating its financial risk relating to the development of its projects. The Group believes that its land bank is sufficient to enable it to continue development activities for at least the next five years and the Group will continue its prudent and flexible approach in growing its landbank.

Strong shareholder support and capital base

As of 31 July 2017, the Group was 50.8 per cent. owned by eSun, its ultimate holding company. Along with eSun, the Group is part of the Lai Sun Group, a conglomerate of five companies listed in Hong Kong. The Lai Sun Group has made extensive investments in China, originating as a garment manufacturing business and retailer, and has been engaged in property development in the PRC since 1993.

The Lim/Lam family, which controls the Lai Sun Group, has what the Group considers to be an extensive network of well-developed business relationships in the PRC. Being a member of the Lai Sun Group gives the Group access to this extensive network of local contacts and information on the latest market opportunities.

In June 2006, CapitaLand China, a wholly owned subsidiary of CapitaLand, which is a Singapore listed property developer, became the Group's key strategic shareholder by subscribing for 1,610 million of its new shares, which represented approximately 20 per cent. of its issued share capital at the time. CapitaLand is one of the largest property developers in Asia and has extensive experience ranging from the development of large-scale shopping centers to office blocks and residential developments in the PRC.

The Group has leveraged the experience of its joint venture partner, CapitaLand China, in developing Guangzhou Dolce Vita, a development of low-rise condominiums in northwest Guangzhou. The Group believes it will benefit from its association with them and their experience in developing large-scale projects. CapitaLand China has two non-executive directors serving on the Guarantor's Board. One of the non-executive directors nominated by CapitaLand also serve on the Guarantor's audit and remuneration committees, which has helped strengthen the Group's corporate governance. The Group's hotel property, Ascott Huaihai Road Shanghai, is managed by Ascott Group, a wholly-owned subsidiary of CapitaLand.

Seasoned management team

The Group's senior management team consists of experienced property development and rental property professionals, who have internationally recognized qualifications and extensive experience in the development, sales and management of real estate projects, not only in major PRC cities such as Shanghai and Guangzhou, but also overseas. For the financial years ended 31 July 2015, 2016 and 2017, core profit, which is adjusted profit attributable to the shareholders of the Group (adjustments include excluding the effect of property revaluations, fair value gains/(losses) on cross currency swaps and ineffective portion of the effective hedge recognised in the profit or loss account), was HK$381 million (20.0 per cent.), HK$494 million (24.2 per cent.) and HK$884 million (66.6 per cent.), respectively.

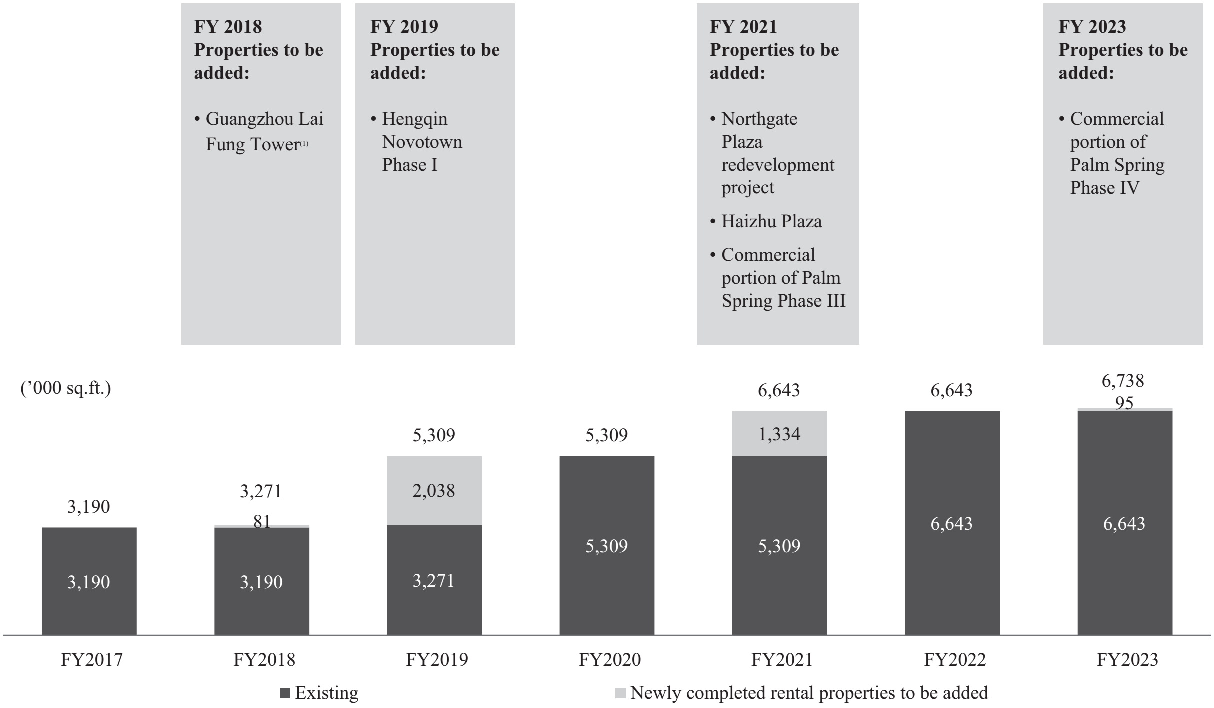
The Group has established management and project teams who have been engaged in the PRC property market for over fifteen years. The Group believes that, by employing and retaining individuals with domestic or overseas backgrounds, it has been able to capitalize on their collective expertise in both the local and international property markets, and selectively apply different ideas, concepts and practices such that the Group can develop and sell properties that appeal to both domestic as well as overseas customers. For the credentials of the senior management, please refer to the section headed "*Directors and Company Management*".

Strategies

The Group aims to continue to grow as a property developer with increasing focus on rental properties with a presence in the larger cities in the PRC where the Group has an established base. Overall, the Group intends to continue to pursue a prudent and disciplined corporate strategy of steady and sustainable growth. The Group has developed the following business strategies to pursue its growth objectives:

Increase recurrent rental income from core rental properties

The Group intends to continue to derive a significant portion of its revenue from high-quality rental properties in central areas in major cities. Going forward, the Group intend to retain any sizeable commercial and retail elements to grow its rental property portfolio, thus increasing the recurrent income rental base, while residential projects will be built primarily for sale. The Group maintains and improves the value of its rental properties by investing in refurbishment and renovation. The Group will continue to improve the recurrent income base through upgrading existing rental properties and adding new commercial properties from development projects. Set out below is the expected growth of the rental portfolio of the Group and the pipeline of development projects of the Group as at 31 July 2017:



(1) Upon completion of the asset swap transaction announced by the Company on 15 January 2015 in August 2017 post year end, the total GFA of Guangzhou Lai Fung Tower owned by the Group increased to approximately 707,800 sq.ft. from that of approximately 626,700 sq.ft as at 31 July 2017

This will provide a solid foundation to mitigate the revenue volatility from development projects. The Group will continue to strengthen its businesses in China, focusing on core cities such as Shanghai, Guangzhou, Zhongshan and Hengqin, while leveraging those operational hubs to explore opportunities in the nearby cities and areas. The Group believes that such diversification will increase the breadth and stability of its revenue streams by reducing its overall exposure to volatility within any one property sector, in particular the volatile residential property sector.

Focus on the middle- to high-end market

The Group targets its products at the middle- to high-end market and aim to provide quality office, retail and residential properties and hotels and serviced apartments for purchasers and tenants of this market at affordable prices. The Group believes that the middle- to high-end market still has significant growth potential as demand for middle- to high-end residential, office and retail properties will continue to increase as a result of the rapid development of the PRC economy, and the corresponding urbanization, increase in income, and improvement in living standards of the urban population. In addition, the Group believes that risks of significant fluctuations in property prices and demand in the middle- to high-end market would be lower than in the luxury property market, since the level of speculative investments in the Group's chosen segment is not as intensive.

Continue to expand the Group's business operations and land bank in a disciplined manner

The Group intends to continue to expand its business operations and replenish its land bank in a prudent and selective manner. Benefitting from the strong recurring income from its rental portfolio, the Group is currently in no rush to acquire any new land bank. The Group will continue to review appropriate opportunities to acquire new development sites and projects, including both greenfield projects and partially completed projects, while maintaining a system of financial controls and managing its costs through a detailed budget-planning process. The Group believes that purchasing land at prices that are low relative to the expected selling prices or capital values of the finished projects is a critical factor in managing financial risk and achieving superior profitability. In the Group's selection of new development sites, the Group will continue to focus on those located in major transportation routes which are convenient and easily accessible.

In addition to the Shanghai, Guangzhou, Zhongshan and Hengqin markets in which the Group already has a presence, the Group intends to leverage on these existing operational hubs and expand into other cities nearby in the Yangtze River Delta and the Pearl River Delta.

The Group will also continue to review appropriate opportunities to partner with large and reputable developers and participate or invest in large-scale property development consortiums in the PRC in a selective manner to minimise risks. For instance, one of the Group's substantial shareholders, CapitaLand China, has extensive property development experience in the PRC ranging from the development of large-scale shopping centres to office blocks and residential developments in the PRC. The Group believes that leveraging its partners' resources will put it in a strong position to identify property trends and potential development opportunities in its chosen markets.

Continue to enhance the Group's reputation as a quality developer by delivering value to its customers and partners

The Group intends to continue to promote the image of the properties in its property portfolio. The Group's dedicated in-house sales and marketing team, which has over 130 employees, works closely with third-party advertising agencies to implement the Group's marketing strategies. The Group seeks to maintain high standards in the properties that it develop in terms of design, quality of materials and furnishings in order to maintain its reputation as a developer of quality properties. The Group also provides management services of international standards to properties it developed in the PRC. The Group utilises the Lai Sun Group's property management experience in Hong Kong and apply its knowledge of maintaining the right tenant mix and demanding customer service standards to its property management in the PRC. The Group will continue to develop attractive and well located serviced apartments and hotels, and retail and office properties that create value for its business partners, tenants and end customers. The Group will also continue to devote its resources to improving project site selection, market orientation, project design, quality control, marketing and after-sales services, such as property management. The Group believes that delivering value to its customers and enhancing their overall satisfaction with the Group's products will enable it to further strengthen the brand recognition of its property portfolio.

Business

The Group's business activities and interests are principally divided into two segments: property investment and property development. The following table sets forth the composition of the Group's property portfolio, including approximate attributable GFA and car-parking spaces as of 31 July 2017:

	Commercial/ Retail	Serviced Office	Apartment	Residential	Total (excluding car-park & ancillary facilities)	No. of car-parking spaces attributable to the Group
			('000 sq. ft.)			
Completed properties held for rental properties[(1)]	1,625	967	—	—	2,592	799
Completed hotel properties and serviced apartments	—	—	598	—	598	—
Properties under development[(2)]	1,109	1,745	821	2,051	5,726	4,402
Completed properties held for sale	63(3)	77	—	671	811	2,319
Total GFA of major properties of the Group	2,797	2,789	1,419	2,722	9,727	7,520

Notes:

(1) Completed and generating properties.

(2) All properties under construction.

(3) Completed properties for sale, including 53,223 sq. ft. of commercial space in Zhongshan Palm Spring which is currently for self-use and expected to be reclassified as completed properties held for rental purpose as it is being leased out over time.

The following tables show a breakdown of the Group's principal businesses by segment in terms of turnover and profit from operating activities (excluding unallocated gains or expenses) for the periods indicated:

	For the year ended 31 July					
	2016			2017		
	(RMB million)	*(HK$ million)*	*%*	*(RMB million)*	*(HK$ million)*	*%*
Turnover						
Property development	1,183.2	1,414.1	69	548.2	624.6	47
Property investment	526.6	629.4	31	616.2	702.1	53
Total turnover	1,709.8	2,043.5	100	1,164.4	1,326.7	100

	For the year ended 31 July			
	2016		2017	
	(HK$ thousands)	*%*	*(HK$ thousands)*	*%*
Contribution to segment results				
Property development	511,683	38	44,340	4
Property investment*	846,094	62	1,167,066	96
Total turnover	1,357,777	100	1,211,406	100

* including fair value gains in the Group's property investment segment as follows:

	For the year ended 31 July	
	2016	2017
Fair value gain on investment properties	528,015	800,104

Property Investment

Overview

As of 31 July 2017, the Group had approximately 3,189,925 sq. ft. (excluding car parks and ancillary facilities) of attributable GFA of completed rental properties held for long-term investment with a mix of uses, including office, retail, hotel, serviced apartments and residential. The Group also had 799 car-parking spaces, of which 350 in Shanghai Hong Kong Plaza, 313 in Guangzhou Lai Fung Tower and 136 are in Guangzhou May Flower Plaza.

The following table shows the approximate aggregate GFA of major completed properties in the Group's rental portfolio by category of use as of 31 July 2017:

Location	Group interest	Commercial/ Retail	Office	Serviced Apartment/ Hotel	Total (excluding car-park & ancillary facilities)	No. of car-parking spaces attributable to the Group
			(sq. ft.)			
Shanghai						
Hong Kong Plaza	100%	468,434	362,096	355,267[1]	1,185,797	350
May Flower Plaza	100%	320,314	—	143,846[2]	464,160	—
Regents Park	95%	77,959	—	—	77,959	—
Northgate Plaza I[3]	100%	—	—	—	—	—
Guangzhou						
May Flower Plaza	100%	357,424	79,431	—	436,855	136
West Point	100%	171,968	—	—	171,968	—
Lai Fung Tower	100%	101,283	525,463	—	626,746	313
Zhongshan						
Palm Spring	100%	127,884	—	98,556[1]	226,440	—
Total of major rental properties		1,625,266	966,990	597,669	3,189,925	799

Notes:

(1) Serviced apartment.

(2) Hotel.

(3) The demolition of this property was completed in May 2017 and foundation works for the redevelopment of Shanghai Northgate Plaza I, Northgate Plaza II and Hui Gong Building in Shanghai commenced in September 2017.

The following table shows the approximate aggregate GFA of major completed hotel properties and serviced apartments as of 31 July 2017:

Location	Group interest	Number of rooms	Approximate attributable GFA	No. of car-parking spaces attributable to the Group
			(sq. ft.)	
Shanghai				
Ascott Huaihai Road	100%	300	355,267	—
STARR Hotel	100%	239	143,846	—
Zhongshan				
STARR Resort Residence	100%	90	98,556	—
Total of major hotel properties and serviced apartments		629	597,669	—

The Group intends to continue to expand into the hotel, serviced apartment, retail and office property sectors in the PRC to diversify its sources of future revenue. At the same time, the Group aims to continue to increase the proportion of rental properties, so as to achieve greater revenue stability through recurrent rental income.

For the year ended 31 July 2017, the Group's rental operations from property investment recorded a turnover of HK$702.1 million, representing a 12 per cent. increase over the HK$629.4 million the Group recorded in the corresponding period of the prior year. For the year ended 31 July 2015, the Group's rental operations from property investment recorded a turnover of HK$626.00 million, representing a 10 per cent. increase over the HK$566.40 million the Group recorded in the corresponding period of the prior year. For the year ended 31 July 2013, the Group's rental operations from property investment recorded a turnover of HK$522.7 million.

Major Rental Properties

The following is a brief description of the Group's major rental properties:

	For the year ended 31 July			For the year ended 31 July			
	2017# *(HK$ million)*	**2016#** *(HK$ million)*	% *Change*	**2017** *(RMB million)*	**2016** *(RMB million)*	% *Change*	**Year end occupancy (%)**
Shanghai							
Shanghai Hong Kong Plaza	399.4	398.2	0.3	350.6	333.2	5.2	Retail: 95.2% Office: 91.8% Serviced Apartments: 85.3%
Shanghai May Flower Plaza	75.4	71.4	5.6	66.2	59.7	10.9	Retail: 100.0% Hotel: 81.6%
Shanghai Regents Park	20.0	14.3	39.9	17.5	12.0	45.8	100.0%
Shanghai Northgate Plaza I	—	4.9	-100.0	—	4.1	-100.0	0.0%*
Guangzhou							
Guangzhou May Flower Plaza	105.5	109.5	-3.7	92.6	91.6	1.1	99.2%
Guangzhou West Point	18.4	17.2	7.0	16.1	14.4	11.8	99.6%
Guangzhou Lai Fung Tower	74.9	6.2	1,108.1	65.7	5.2	1,163.5	Retail: 100.0% Office: 100.0%**
Zhongshan							
Zhongshan Palm Spring	8.5	7.7	10.4	7.5	6.4	17.2	Retail: 86.4%*** Serviced Apartments: 56.9%
Total:	702.1	629.4	11.6	616.2	526.6	17.0	

The exchange rates adopted for the years ended 31 July 2017 and 2016 are 0.8777 and 0.8367, respectively

* All tenants were vacated for project redevelopment and demolition has been completed in May 2017

** Excluding the office area that is subject to the asset swap transaction as announced by the Company on 15 January 2015 and the asset swap transaction has been completed in August 2017

*** Excluding self-use area

Shanghai Hong Kong Plaza

Shanghai Hong Kong Plaza is a twin-tower property located on both the North and South sides of the street at a prime location on Huaihaizhong Road in Huangpu District, Shanghai. The twintowers are connected by a footbridge. The property's total GFA is approximately 1.19 million square feet excluding 350 car-parking spaces. The property comprises an office tower, shopping arcades and a serviced apartment tower with total GFA of approximately 362,100 square feet, 468,400 square feet and 355,300 square feet, respectively. The property is directly above the Huangpi South Road Metro Station and is within walking distance of Xintiandi, a well-known landmark in Shanghai. The shopping arcades are now one of the most visible high-end retail venues for global luxury brands in the area. Anchor tenants include The Apple Store, Cartier, Coach, GAP, Tiffany & Co., and internationally renowned luxury brands and a wide array of dining options. Asset enhancement aimed at improving foot traffic at the higher levels of the retail podium of the Shanghai Hong Kong Plaza has been completed and new tenants have moved in by the end of 2014. The serviced apartments are managed by the Ascott Group and the Group has successfully leveraged the Ascott Group's extensive experience and expertise in operating serviced apartments to position the serviced apartments as a high-end product. The Group owns 100 per cent. of this property.

Shanghai May Flower Plaza

Shanghai May Flower Plaza is a mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Jing'an District in Shanghai. This project is situated near the Zhongshan Road North Metro Station. The Group owns 100 per cent. in the retail podium which has approximately 320,300 square feet of GFA including the basement commercial area. The asset is positioned as a community retail facility.

Shanghai Regents Park

Shanghai Regents Park is a large-scale residential/commercial composite development located in the Zhongshan Park Commercial Area at the Changning District, Shanghai. It is situated within walking distance of the Zhongshan Park Metro Station. The Group retains a 95 per cent. interest in the commercial portion with a total gross floor area of approximately 82,000 square feet.

Guangzhou May Flower Plaza

Guangzhou May Flower Plaza is a prime property situated at Zhongshanwu Road, Yuexiu District directly above the Gongyuanqian Metro Station in Guangzhou, the interchange station of Guangzhou Subway Lines No. 1 and 2. This 13-storey complex has a total GFA of approximately 436,900 square feet excluding 136 car-parking spaces. The building comprises of retail spaces, restaurants, office units and car-parking spaces. The property is almost fully leased to tenants comprising well-known corporations, consumer brands and restaurants.

Guangzhou West Point

Guangzhou West Point is located on Zhongshan Qi Road in the Liwan District of Guangzhou and is within walking distance from the Ximenkou Subway Station. This is a mixed-use property where the Group has sold all the residential and office units and retained a commercial podium with GFA of approximately 172,000 square feet. Tenants of the retail podium include renowned restaurants and local retail brands.

Guangzhou Lai Fung Tower

Guangzhou Lai Fung Tower is the office block of Phase V of Guangzhou Eastern Place, a multi-phase project located on Dongfeng East Road in the Yuexiu District of Guangzhou.

In January 2015, the Group announced the asset swap transaction with Guangzhou Light Industry Real Estate Limited. The transaction was completed in August 2017. As of the date of this Offering Circular, the Group owns approximately 707,800 sq. ft. (excluding parking spaces) of this 38-storey office building. The commercial area and the office building have been fully leased.

Zhongshan Palm Spring Rainbow Mall

Zhongshan Palm Spring Rainbow Mall is the commercial component of the Group's wholly-owned residential project, Zhongshan Palm Spring, located in Caihong Planning Area in the Western District of Zhongshan. It has a total GFA of approximately 181,100 square feet (excluding self-use area).

Hotel and Serviced Apartments

The following is a brief description of the Group's hotel and serviced apartments:

Ascott Huaihai Road Shanghai

Ascott Huaihai Road in Shanghai Hong Kong Plaza is managed by the Ascott Group and forms part of the premier collection of Ascott Limited's serviced residences in over 70 cities in Asia Pacific, Europe and the Gulf region. The residence, with total GFA of approximately 357,000 sq. ft. (approximately 355,300 sq. ft. of which is attributable to the Group), has 308 contemporary studio, one-bedroom, two-bedroom and three-bedroom apartments and two penthouses on the highest two floors. During the fiscal year ended 31 July 2017, the average occupancy rate was 83.1 per cent. and the average room tariff was approximately HK$1,220.

STARR Hotel Shanghai

STARR Hotel Shanghai is a 17-storey hotel located in the Mayflower Lifestyle Complex in the Jing'an District, within walking distance to Lines 1, 3 and 4 of the Shanghai Metro Station and with easy access to major motorways. There are 239 fully furnished and equipped hotel units with separate living room, bedroom, fully-equipped kitchenette and bathroom for short or extended stays. This property has a total GFA of approximately 143,800 sq. ft. and is 100 per cent. owned by the Group. During the fiscal year ended 31 July 2017, the average occupancy rate was 79.1 per cent. and the average room tariff was approximately HK$507.

STARR Resort Residence Zhongshan

STARR Resort Residence Zhongshan is comprised of two 16-storey blocks located in the Palm Lifestyle Complex in the Zhongshan Western District at Cui Sha Road and is 30 minutes away from the Zhongshan ferry pier. There are 90 fully furnished and serviced one-bedroom and two-bedroom apartments with kitchenette. It has a wide range of family oriented facilities such as an outdoor swimming pool, gym, yoga room, reading room, wine club, card game/mahjong room, tennis court and a food and beverage outlet than can seat 80 people. The property has a total GFA of approximately 98,600 sq. ft. During the fiscal year ended 31 July 2017, the average occupancy rate was 50.0 per cent. and the average room tariff was approximately HK$354.

Property Development

Overview

The Group engages in the development and sale of quality private residential properties targeted at the middle- to high-end residential market in the PRC. The Group also develops other commercial properties such as offices, retail malls, hotels and serviced apartments which the Group retains for rental purposes.

The typical development cycle for vacant land in the PRC is approximately three to four years, whereas the development cycle for urban property projects can be longer, particularly for project sites that are not vacant at the time of acquisition.

The Group is actively involved in all the different stages of the development process in order to control the costs, schedule and quality of its projects. Except for the design and construction of development projects, the Group oversees and largely performs all aspects of its development operations, including the selection and purchase of sites, the preparation of feasibility studies, the obtaining of government approvals for development, supervision of the design and construction of development projects, and the marketing and management of completed projects.

For the year ended 31 July 2017, the Group's turnover from property development was HK$624.60 million, which was a decrease of HK$789.5 million from HK$1,414.10 million for the year ended 31 July 2016. For the year ended 31 July 2015, the Group's turnover from property development was HK$1,275.40 million, which was an increase of HK$634.50 million from HK$640.90 million for the year ended 31 July 2014. For the year ended 31 March 2013, the Group's turnover from property development was HK$1,372.20 million.

The Group's current portfolio of property development projects consists of five projects under various stages of development in Shanghai, Guangzhou, Zhongshan and Hengqin. The following tables set out details of the projects completed for sale and currently under development as of 31 July 2017:

Major Completed Properties for Sale

Location	Group interest	Commercial/ Retail	Residential	Office	Total (excluding car-park & ancillary facilities)	No. of car-parking spaces attributable to the Group
			(sq. ft.)			
Shanghai						
May Flower Plaza	100%	—	—	—	—	458
Regents Park, Phase II	95%	—	—	—	—	386
Guangzhou						
Eastern Place Phase V	100%	—	7,522	—	7,522	45
Dolce Vita	47.5%	665	92,283	—	92,948	49
Paramount Centre(1)	100%	5,602	—	76,741	82,073	46
King's Park	100%	3,337	—	—	3,337	20
Eastern Place	100%	—	—	—	—	2
West Point	100%	—	—	—	—	127
Zhongshan						
Palm Spring	100%	53,223	571,619	—	624,842	1,186
Total of major completed properties held for sale		62,827	671,424	76,471	810,722	2,319

Note:

(1) The asset swap transaction that was announced by the Group on 15 January 2015 in relation to this project was completed in August 2017.

Major Properties Under Development

Location	Group interest	Stage of construction	Usage	Expected completion date	Expected total development cost[1] (100%) (HK$ million)	Approximate site area[2]	Commercial/ Retail	Office	Serviced Apartment	Residential	Total (excluding car-park & ancillary facilities)	No. of car-parking spaces attributable to the Group
								(sq. ft.)				
Shanghai												
Northgate Plaza redevelopment project	100%	Construction work in progress	Commercial/office	Q2 2021	1,930	107,223	94,174	599,426	—	—	693,600	554
Wuli Bridge project	100%	Construction work in progress	Residential	Q1 2019	930	74,112	—	—	—	83,697	83,697	96
Guangzhou												
Dolce Vita	47.5%	Construction work in progress	Residential	Q1 2018[4]		3,217,769[3]	8,988	—	—	—	8,988	22
Haizhu Plaza	100%	Resettlement in progress	Commercial/ office	H1 2021[5]	1,250	90,708	91,925	510,860[6]	—	—	602,785	299
Zhongshan												
Palm Spring	100%	Construction work in progress	Residential	Phase III: Q3 2020 Phase IV: Q3 2022	1,370	2,547,298[3]	131,493	—	—	1,967,670	2,099,163	1,761
Hengqin												
Novotown Phase I	80%	Construction work in progress	Commercial/office/ serviced apartment	Q4 2018	5,970	1,401,184	782,458	634,400	821,094	—	2,237,952	1,670
Total of major properties under development					11,450		1,109,038	1,744,686	821,094	2,051,367	5,726,185	4,402

Notes:

(1) Excludes finance costs and other indirect costs.

(2) On project basis.

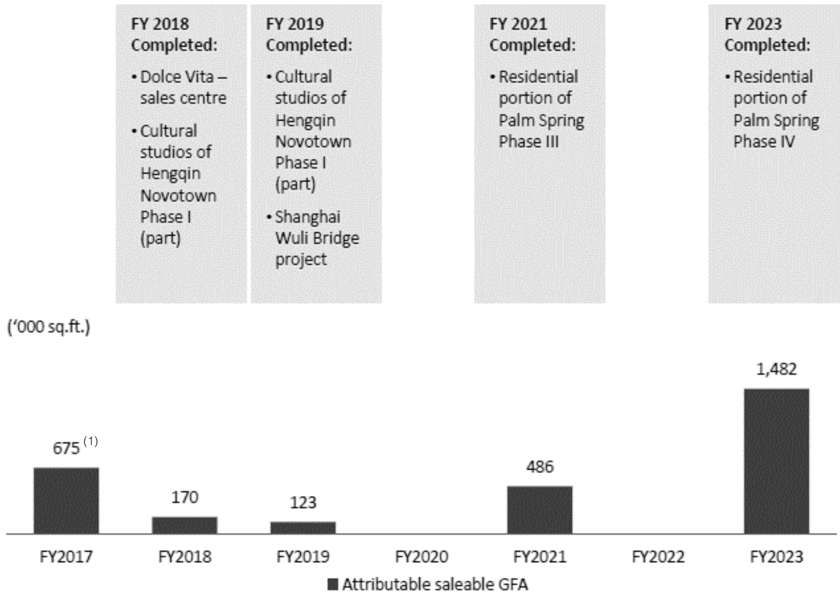
(3) Includes portions of the project that have been completed for sale/lease.

(4) Up to the date of this offering circular, constructions of this project have been completed except for the commercial units with a total GFA of approximately 18,900 square feet that are currently used by the Group as a sales centre for the project. These commercial units are expected to be refurbished for sale by the first quarter of 2018.

(5) In the process of negotiating the buildable area for the site with the city government.

(6) Office/office apartments.

Set out below is the expected attributable sale GFA to be completed:



(1) Excluding commercial portion of the ZhongshanPalm Spring for self-use and Guangzhou Paramount Centre which is subject to the asset swap transaction announced by the Company on 15 January 2015 that has been completed in August 2017 post year end.

The Group's Projects

The Group's current portfolio of property development projects consists of five projects under various stages of development in Shanghai, Guangzhou, Zhongshan and Hengqin. The following is a brief description of the Group's major projects completed for sale and under development:

Shanghai Northgate Plaza redevelopment project

Shanghai Northgate Plaza I is located on Tian Mu Road West in the Jing'an District of Shanghai near the Shanghai Railway Terminal and comprises office units, a retail podium and car-parking spaces. Shanghai Northgate Plaza II is a vacant site adjacent to Northgate Plaza I. In September 2016, the Group completed the acquisition of the 6th to 11th floors of Hui Gong Building which is physically connected to Northgate Plaza I, together with the right to use 20 car-parking spaces in the basement. The Group plans to redevelop Northgate Plaza I, Northgate Plaza II and the Hui Gong Building together under a comprehensive redevelopment plan which includes an office tower, a shopping arcade and underground car-parking spaces. The project is expected to add a total GFA of approximately 693,600 sq. ft., excluding car-parking spaces, to the rental portfolio of the Group. The demolition of North Gate Plaza I and Hui Gong Building was completed in May 2017 and foundation works for the redevelopment of Northgate Plaza I, Northgate Plaza II and Hui Gong Building commenced in September 2017.

Shanghai May Flower Plaza

Shanghai May Flower Plaza is a completed mixed-use project located at the junction of Da Tong Road and Zhi Jiang Xi Road in Su Jia Xiang in the Jing'an District in Shanghai and situated near the Zhongshan Road North Metro Station. The residential portion of Shanghai May Flower Plaza is branded "The Mid-town" which comprises 628 residential units and approximately 627,500 sq. ft. of GFA. The for-sale portion of the office units is comprised of 96 units with a total GFA of approximately 57,500 sq. ft. As of 31 July 2017, all residential and office units have been sold out; 458 car-parking spaces of this development remained unsold with a carrying amount of approximately HK$104.2 million.

Shanghai Wuli Bridge Project

In July 2014, the Group succeeded in the auction for the land use rights of a piece of land located by Huangpu River in the Huangpu District in Shanghai with a site area of approximately 74,100 sq. ft. The proposed development has an attributable GFA of approximately 83,700 sq. ft. and is intended to be a high end luxury residential project. Construction work commenced in August 2017 and the project is expected to be completed in the first quarter of 2019.

Guangzhou Eastern Place Phase V

Guangzhou Eastern Place is a multi-phase project located on Dongfeng East Road in the Yuexiu District in Guangzhou. The current Phase V development will have a total GFA attributable to the Group of approximately 946,100 sq. ft., comprising two residential blocks (approximately 319,400 sq. ft. of GFA), an office block and ancillary retail spaces (approximately 626,700 sq. ft. of GFA). Construction works for the residential blocks and office block were completed in the year ended 31 July 2015 and in June 2016, respectively.

Guangzhou Dolce Vita

Guangzhou Dolce Vita is a joint venture project with CapitaLand China and each of the Group and CapitaLand China has a 47.5 per cent. interest in the project. The development is in Jinshazhou, Hengsha in the Baiyun District in Guangzhou and has a total project GFA of approximately 5.459 million sq. ft. The project has 2,796 low-rise and high-rise residential units and shopping amenities, totaling 3.833 million sq. ft., excluding ancillary facilities and car-parking spaces. It is conveniently located near the business center of Jinshazhou, as well as several shopping and entertainment areas, and is easily accessible via Guangzhou Subway Line No. 6 and other transport modes. Jinshazhou is located in northwest Guangzhou.

During the year ended 31 July 2017, 739,643 sq. ft. attributable to the Group was recognized and generated attributable sale proceeds of HK$1,810.3 million. As of 31 July 2017, contracted but not yet recognized sales, excluding car-parking spaces, amounted to HK$256.6 million at an average selling price of HK$3,203 per sq. ft. The refurbishment for sale of commercial units with a total GFA of approximately 18,900 sq. ft. that are currently used by the Group as a sales center for the project is expected to be completed by the end of 2017.

Guangzhou King’s Park

Guangzhou King’s Park is a high-end residential development located on Donghua Dong Road in the Yuexiu District in Guangzhou. The property has an attributable GFA of approximately 98,300 sq. ft., excluding 57 car-parking spaces and ancillary facilities. The project was launched for sale in January 2014.

During the year ended 31 July 2017, the sale of 14 car-parking spaces contributed HK$9.0 million to the turnover. As of 31 July 2017, the contracted but not yet recognized sale of three car-parking spaces amounted to approximately HK$2.3 million.

Guangzhou Haizhu Plaza

Guangzhou Haizhu Plaza is located on Chang Di Main Road in the Yuexiu District, Guangzhou along the Pearl River. The Group owns the entire project. The proposed development has a total project GFA of approximately 602,800 sq. ft. and is intended to be developed for rental purposes. The project is expected to be completed in the first half of 2021.

Zhongshan Palm Spring

The Zhongshan Palm Spring project is located in the Caihong Planning Area in the West District of Zhongshan. The development has a total planned GFA of approximately 6.075 million sq. ft. The project will comprise high-rise residential towers, townhouses, serviced apartments and commercial blocks totaling 4.466 million sq. ft.

During the year ended 31 July 2017, 43,407 sq. ft. of house units and 597,959 sq. ft. of residential units were recognized at average selling prices of HK$1,582 and HK$743 per sq. foot, respectively, which contributed a total of HK$485.3 million to turnover. As of 31 July 2017, contracted but not yet recognized sales for high-rise residential units amounted to HK$91.1 million, at average selling prices of HK$1,087 per sq. foot. As of 31 July 2017, completed residential units held for sale in this development amounted to 571,600 sq. ft., with a carrying amount of approximately HK$456.3 million. The remaining GFA under development is approximately 2,099,200 sq. ft.

Set out below is the current expectation on the development of the remaining phases:

Phase	**Description**	**Approximate GFA**[(1)] *(sq. ft.)*	**Expected completion**
III	High-rise residential units including commercial units	523,100	Q3 2020
IV	High-rise residential units including commercial units	1,576,100	Q3 2020

Note:

(1) Excluding car-parking spaces and ancillary facilities.

The Group is closely monitoring the market conditions and will adapt the pace of development accordingly.

Hengqin Novotown

The Hengqin Novotown project aims to create the “Las Vegas/Orlando Florida” of Asia. Located at the heart of Hengqin, the project site with a site area of 1.0 sq. km. is adjacent to Hong Kong, Macau, Zhuhai and other key Southern China cities. The Group successfully won Phase I of the project in September 2013.

The Phase I of the project is owned by the Group (80 per cent.) and by eSun (20 per cent.). It has site area of 1.4 million sq. ft. with a total GFA of 4.2 million sq. ft., including car-parking spaces and ancillary facilities. The master layout plan for Phase I was approved in January 2015 and construction work commenced at the end of 2015. The project is expected to be completed in the fourth quarter of 2018.

The expected GFA breakdown of Phase I by usage is set out below:

Usage	GFA *(sq. ft.)*
Cultural themed hotel	596,727
Cultural workshop	429,641
Cultural commercial area	523,843
Performance halls	167,982
Cultural attractions	286,247
Office	542,447
Cultural studios (For sale)	250,553
Car-parking spaces	593,797
Ancillary facilities and others	828,800
Total	**4,220,037**

The Hyatt Group was engaged as manager of the cultural themed hotel in March 2015 and the project is expected to have Hyatt Regency Hotel with 490 rooms. On 30 October 2015, the Group entered into a licensing agreement with Lionsgate LBE, Inc. for the development and operation of an immersive experience center in one of the two performance halls Phase I. In July 2016, Village Roadshow Theme Parks, a theme park operator with attractions across Australia and America, was appointed as consultant during the construction phase of the Lionsgate-themed immersive experience center, to oversee the preopening and to operate the immersive experience center for a minimum of ten years. The immersive experience center is expected to feature attractions, retail, and themed dining experiences based on Lionsgate's global film franchises such as *The Hunger Games, The Divergent Series* and *Now You See Me.*

On 30 October 2015, the Group also entered into licensing agreements with a master license holder of the National Geographic Society to develop a family "edutainment" center. The size of the family edutainment center is expected to be approximately 50,200 sq. ft., including individual attractions and rides, food and beverage facilities, retail premises, virtual reality and/or 4D interactive experiences, and other types of entertainment and educational attractions.

In April 2016, the Group entered into a cooperation framework agreement with Trans-Island Limousine Service Limited, a wholly-owned subsidiary of Kwoon Chung Bus Holdings Limited for the development of a cross-border bus service between Hong Kong and Hengqin. The sole and exclusive bus terminus in Hengqin will be located at the Novotown.

In January 2017, the Group entered into a shareholders' agreement with Sanitas Management Company Limited, which owns the Taipei Beitou Health Management Hospital in Taiwan, to form a joint venture company for the development of a healthcare and beauty center in Phase I. This healthcare tourism destination is expected to have an area of approximately 86,000 sq. ft., providing visitors with comprehensive medical check-ups, beauty consultation and wellness services.

As of the date of this Offering Circular, discussions between the Group and the Hengqin government regarding the land concession and the Phase II development of the Novotown are on-going. Meanwhile, the Group has already liaised with a few prestigious partners for the potential development of the project.

In June 2017, the Group entered into a license agreement with Real Madrid Club de Futbol for the development and operation of a location based entertainment center in Novotown. In September 2017, the Group entered into a framework agreement with Dr. Ing. h.c. F. Porsche AG for the development and operation of an auto experience theme center in Novotown Phase II. In November 2017, the Group entered into a cooperation agreement with Harrow International (China) Management Services Limited and ILA Holdings Limited bringing Harrow International China Group, the world's leading learning institution, to set up Innovation Leadership Academy Hengqin ("**Harrow School**") in Phase II of the Novotown project in Hengqin, Zhuhai. The cooperation aims to enhance the general education experience in Hengqin and across the region catering for learning needs of local and overseas families residing within the Pearl River Delta area, including Hengqin, Zhuhai, Macau and Greater Bay Area. The entertainment center, the auto experience theme centers and Harrow School are planned to be launched in Phase II of Novotown, subject to the acquisition of the land for Phase II.

Leasing

The Group's office and retail leases are typically entered into for two- to three-year terms with some having the option to renew. Lease terms for food and beverage tenants, which almost always contain an option to renew, are generally longer and are typically entered into for three to six years.

The Group's rents are generally quoted in square meter per lettable area. In most cases (except for the serviced apartments), the rents quoted by the Group exclude property management charges. In determining rents, the Group considers the positioning of the property to determine the appropriate tenant mix in order to maximize rental return and, in the case of a shopping center, the retail flow.

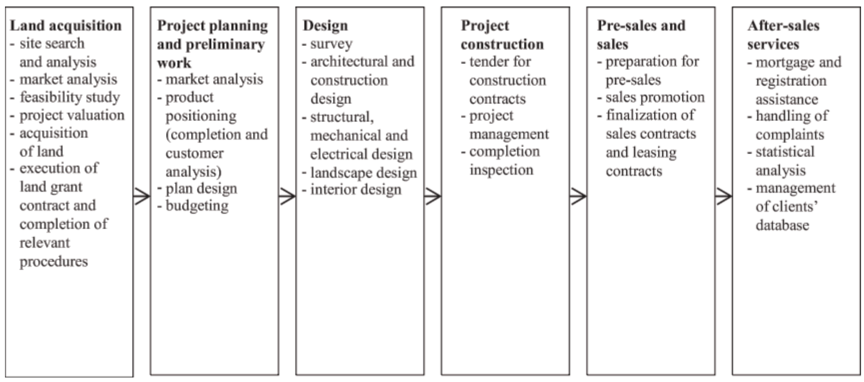
Property Management

The Group performs property management functions for almost all of its investment and development properties except for Shanghai Hong Kong Plaza, where the serviced apartments are managed by the Ascott Group, a member of CapitaLand and the cultural themed hotel at the Novotown in Hengqin which is managed by the Hyatt Group. The Group believes that the provision of quality management services of international standards to properties it develops will enable it to enhance its brand. As of 31 July 2017, we had over 500 employees dedicated to property management and over 140 employees responsible for serviced apartment management.

Property Development Phases

Property developers in the PRC are required to obtain qualification certificates in order to develop property. See "*Regulation*" for more information on property qualification certificates. The Group has valid qualification certificates in respect of all its PRC Subsidiaries that are currently engaged in property development in the PRC.

Development of the Group's properties usually entails six phases: land acquisition, project planning and preliminary work, design, project construction, pre-sales and sales, and after-sales services. The following diagram illustrates the typical stages of the property development cycle and the key elements and milestones within each stage:



Project Management

Headquarters. The Group's headquarters located in Hong Kong oversee and control the major steps of all of its property development projects, including strategic planning, project identification, site acquisition, financing and budget control. The Group's headquarters include, among others, its human resources division, legal division and accounts and finance division.

Local offices. The Group seeks to maintain direct management control over its projects through its on-the-ground staff in Shanghai, Guangzhou, Zhongshan and Hengqin. The Group's local staff is responsible for the day-to-day operations and project management of each individual project, including implementing infrastructure, engineering and supervision of day-to-day construction work.

Feasibility studies, which include market analyses of prospective projects to assist the Group management in deciding whether to develop a particular site, are prepared by its local office and approved by its headquarters. During the construction phase, the Group's local project management team responsible for managing site progress works closely with the contractors to control costs and to ensure the quality of the construction work.

Project selection. Opportunities are often brought to the Group's attention by real estate brokers, agents, current partners and, sometimes, banks. In conjunction with the Group's on-going market research, its senior management continuously works to identify and evaluate potential sites for new projects. The Group assesses land parcels for use in potential projects based on its analysis of, among other things:

- location of the land parcel;
- transportation access and infrastructure support;
- development prospects, taking into account social, economic and environmental effects;
- government development plans for the relevant site and the neighboring area;
- local customer demand and expected growth of the city in which the land is located;

- timing and cost of relocating existing occupants;
- applicable zoning regulations and government preferential policies; and
- project evaluation according to the Group's internal pre-determined criteria, such as whether bank financing will be readily available.

Feasibility studies, where the Group considers numerous factors, including acquisition and development costs, its ability to obtain financing and ultimate return, are conducted by its finance and marketing teams. If the senior management considers a potential site worth pursuing after completion of the feasibility studies, then the approval of the Board will need to be obtained to proceed further. After the approval of the Board has been obtained, the senior management will appoint lawyers to commence formal due diligence and begin negotiations. The senior management will also consider the most appropriate mechanism for the investment and whether to enter into a joint venture in respect of the development.

Land Acquisition

All of the land in the Group's current land bank was purchased from the PRC Government or private enterprises by way of public auction or direct negotiation. The Group previously funded all of its land acquisitions from internal cash resources.

In 2002, the MLR issued the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-for-Sale which provided that, commencing from 1 July 2002, with limited exemptions, State-owned land use rights for the purposes of retail, tourism, entertainment and commodity residential development in the PRC can only be granted by the government through public tender, auction or listing-for-sale. In deciding to whom the land use rights should be awarded, the local government considers not just the tender price, but also the credit and qualification of the tenderer and the proposal. By participating in tenders, the Group will generally incur higher land acquisition costs than when it acquires land through private acquisitions.

While the Group believes these measures will result in a more transparent land grant process, which will enable developers to compete more effectively, the Group also expect that in the future the costs of purchasing land use rights will increase. The Group plans continue its prudent and flexible approach in land acquisition.

For details of the laws and regulations governing land acquisition, please refer to the section headed "*Regulation — The Land System of the PRC*".

Pre-construction

Once the Group has obtained the rights to develop a parcel of land, it begins applying for the various permits and licenses that it needs in order to begin construction and sale of its properties. If the land use right is acquired by way of grant, the land grant contract will be a precondition to applications for the following certificates and permits:

- Land use right certificate. This is a certification of the right of a party to use a parcel of land. In Shanghai or some other cities, a real estate title certificate will be issued instead;
- Construction land planning permit. This is a permit authorizing a developer to begin the survey, planning and design of a parcel of land;

- Construction works planning permit. This is a certificate indicating government approval for a developer's overall planning and design of the project and allowing a developer to apply for a work commencement permit;

- Work commencement permit. This is a permit required for commencement of construction; and

- Pre-sale permit. This is a permit authorizing a developer to start the pre-sale of property still under construction.

Financing of Projects

The Group finance our projects primarily through capital contributions from its shareholders, bank loans and internal cash flows, including proceeds from the pre-sale of its properties. According to guidelines issued by CBRC, no loan shall be granted to projects which have not obtained the relevant land use right certificates, construction land planning permits, construction works planning permits and work commencement permits. The guidelines also stipulate that not less than 50 per cent. of the total investment in a property development project must come from a real estate developer's own capital for the development project in order for banks to extend loans to the real estate developer. The Group's policy is to finance its property development projects with internal resources to the extent practicable so as to reduce the level of external funding required.

For the financial year ended 31 July 2015, 2016 and 2017, the Group's total debt was HK$5,902 million, HK$5,977 million and HK$6,091 million, respectively. The following table sets forth the Group's debt repayment schedule as of 31 July 2017.

Time	**Amount** *(HK$ million)*
Within 1 year	2,355
1-2 years	693
3-5 years	2,954
Over 5 years	89
Total[(1)]	**6,091**
Undrawn facilities	3,528

Note

(1) Total debt comprises bank borrowings of HK$2,896 million (48 per cent.), senior notes of HK$2,080 million (34 per cent.) and other loans of HK$1,115 million (18 per cent.).

Of the Group's total debt of HK$6,091 million as of 31 July 2017, 70 per cent. was denominated in RMB, 22 per cent. was denominated in Hong Kong dollar and 8 per cent. was denominated in US dollar.

Project Design

The Group contracts out project design work for its property development projects to reputable architectural and other consultancy firms (for any project, the "**External Team**") which are selected through a tender process.

The Group's in-house project management team then works with the selected External Team to determine the design of a particular property development by taking into account certain factors such as:

- the proposed type of development;
- the target market; and
- the advice provided by the Group's sales and marketing department on the expectations of its target market.

Once the master design concept for a project is established, the Group's project management team will collaborate with the External Team to transform the concept into a more detailed design drawing (the "**Design Development Document**"). This is a crucial part of the design process. The Design Development Document must be approved by the relevant PRC Governmental authorities. Once approved, the Design Development Document then becomes the basis for the detailed design and construction of the project.

The Group's project management team also works with the External Teams to develop and determine the appropriate building methods and materials so that project costs can be controlled and its developed properties are more likely to be accepted by the targeted markets.

During the construction phase, the Group's project management team works closely together with the contractor, the project engineers and the External Team to manage and oversee the project's progress. In addition to focusing on the functional and aesthetic aspects of the project, the Group's project management team also provides constant site supervision and conducts progress audits in order to ensure that construction progresses according to the design plan and schedule.

Resettlement

Resettlement, where necessary, is carried out according to the land grant contract. The Group's only current project where there has been a need to resettle occupants is Guangzhou Haizhu Plaza. The Group are in the process of resettling the residents and this is progressing, however, subject to factors outside of its control. Upon completion of the resettlement, the Group expects to be issued the land use rights certificate in respect of this project.

Construction

The Group engages third-party contractors to provide various services, including, but not limited to, construction, piling and foundation, building and property fitting-out work, interior decoration and the installation of air-conditioning units and elevators.

Contractors are selected by way of negotiated tender on the basis of the quality of their work, pricing and completion schedule. The Group has a list of approved contractors whom it has previously worked with who are invited to tender. The tender procedures must comply with the relevant local regulations. The Group does not directly engage suppliers, although it participates in, and closely monitors, the selection of suppliers of key construction materials by its main contractors.

The construction contracts contain warranties and indemnities from the construction companies in respect of quality and timely completion of the construction. The Group requires construction companies to comply with PRC laws and regulations on the quality of construction products. The contractors are also subject to the Group's quality control standards and procedures, including examination of materials and supplies and on-site inspection, and contractor's fees are paid by installments according to the progress of construction. Construction payments are determined primarily on the basis of the estimated labor and material costs and fitting requirements completed at each stage and certified by the relevant External Team.

The Group has not had any major disputes with any of its construction contractors. The Group believes it maintain good relationships with all of its third-party contractors. All payments are made in Renminbi.

Quality Control and Construction Supervision

The Group places a strong emphasis on quality control to ensure that its properties comply with relevant regulations and are of high quality. As part of its quality control procedures, it is the Group's policy to only contract with reputable design and construction companies.

The general contractors procure most of the equipment and construction materials necessary for each project in accordance with the Group's specifications. The Group does not own any construction equipment and do not maintain any inventory of building materials. To maintain quality control, the Group employs very strict procedures for selection, inspection and testing of materials. The Group's project management teams inspect all equipment and materials to ensure compliance with the contractual specifications before accepting the materials on site and approving payment.

To ensure quality and monitor the progress and workmanship of construction, each project has its own on-site project management team. The Group's project management teams provide on-site supervision of the project. In addition, the Group's project management teams also inspect the quality of the construction work on a selective basis.

Pre-sale

In line with the market practice in the PRC, the Group usually commences pre-sales (i.e., sales of properties by contract in advance of the completion of construction) in accordance with applicable PRC laws and regulations. The Group's policy is to pre-sell a property as soon as the development has reached the stage that pre-sales are permitted under PRC laws. The majority of the Group's properties developed for sale are sold on a pre-sale basis. Pre-sales of a given project typically occur phase by phase and the Group uses such pre-sale proceeds to fund a significant portion of the project construction costs for the relevant project.

According to the Urban Real Property Law and the Administrative Measures Governing the Pre-sale of Urban Real Estate, the following conditions must be fulfilled before the pre-sale of a particular property can commence:

- the land premium must be paid in full and the land use right certificate must have been obtained;

- the constructive land planning certificate, the construction works planning permit and the work commencement permit must have been obtained;

- the funds contributed to the development of the project shall amount to at least 25 per cent. of the total amount to be invested in the project and the project progress and the date of completion of the project for use must have been ascertained; and

- registration for pre-sale shall be filed and a pre-sale permit shall be obtained.

As permission to pre-sell is usually granted by the local government, the Group may also have to abide by additional requirements. For details of the laws and regulations governing pre-sales, please refer to the section headed "*Regulation — The Land System of the PRC — National Legislation — Pre-sale and Sale*".

Sales and Marketing

The Group has a dedicated sales and marketing team of over 130 employees responsible for determining the appropriate advertising and sales plans for its property development projects. The Group's sales and marketing teams are responsible for conducting detailed analysis of market conditions, preparing promotional materials, conducting general promotional campaigns, recommending unit prices and pricing-related policies for its projects and coordinating and monitoring its relationship with the media. After the senior management receives the results of the detailed analysis, unit prices are determined by them.

Payment and End-user Financing

Purchasers of the Group's properties can choose between payment by installments or a lump sum payment. Where a purchaser chooses to pay by installments, approximately 30 per cent. of the purchase price is typically required to be made as a down payment when the sales contract is entered into. Mortgages will be arranged for the remaining purchase price and the full purchase price must be paid within six months of the date of the sales contract or by the delivery of the unit, whichever is earlier.

In accordance with industry practice, the Group is required to provide guarantees to mortgagee banks in respect of mortgages offered to its customers until completion of construction and the relevant property ownership certificates and certificates of other interests in the property are submitted to the relevant mortgagee banks. If a purchaser defaults under the mortgage loan and the bank calls on the loan before the relevant individual property ownership certificate is obtained, the Group is obligated to repay the entire outstanding principal amount of the loan, together with all accrued interest thereon, owed by the purchaser to the relevant mortgagee bank. In such circumstances, the Group would have the right to take possession and re-sell the mortgaged property. Accordingly, the period in which the Group actually bears the credit risk of its customers starts from the date it delivers vacant possession to the purchaser.

In line with industry practice, we do not conduct independent credit checks on purchasers but rely on the credit checks conducted by the mortgagee banks. The Group has not experienced any default by a material portion of such customers under the pre-registration guarantees.

After-sales Services

In line with industry practice, the Group provides comprehensive after-sale services to its customers, which include assisting with financing applications, title registration and obtaining the relevant title certificates

Competition

The Group believes that the property market in the PRC is fragmented and that there is no single dominant market player. Competition is primarily based on factors such as location, facilities, supporting infrastructure, services and pricing. In recent years, a large number of property developers have begun to undertake property development and investment projects in Shanghai, Guangzhou and elsewhere in the PRC. These include overseas property developers (including a number of leading Hong Kong property developers) and local property developers in the PRC, many of whom have greater financial and other capital resources, marketing and other capabilities and/or name recognition than us. In addition, some local companies have extensive local knowledge and business relationships and/or a longer operational track record in the relevant local markets than us, while international companies are able to capitalize on their overseas experience to compete in the PRC markets. Intensified competition between property developers may result in increased costs for land acquisition, oversupply of properties and a slowdown in the approval process for new property development projects by the relevant government authorities.

The Group believes that the extensive experience built up by its senior management in property development will enable the Group to compete effectively. Furthermore, the Group believes that its strategy of site acquisition at reasonable costs, its continuous focus on the development of quality properties and the provision of premium customer service will enable it to maintain its reputation as a developer of quality properties.

Employees

As of 31 July 2017, the Group had approximately 1,300 employees. None of the Group's employees are members of a trade union and the Group has not experienced any strikes or other disruptions due to labor disputes. The Group continues to maintain good relationships with its employees. The compensation the Group offer its employees is in line with market practice.

The Group places emphasis on the training and development of its employees and provide a range of training programs for them. In addition to providing internal courses, the Group also engages outside professionals and consultants to organise seminars and training courses to equip its employees with new knowledge in the industry. The Group also sponsors its employees to attend external training programs organized by various institutions to acquire advanced knowledge and skills.

All of the Group's Hong Kong employees have joined a mandatory provident fund scheme (the "**MPF Scheme**"), which is a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees makes a minimum monthly contribution to the scheme of 5 per cent. (up to a maximum of HK$1,500 per month) of the employee's relevant income as defined under the mandatory provident fund legislation. In addition, as stipulated by rules and regulations in the PRC, the Group is required to make monthly contributions to State-sponsored social labor insurance plans and housing reserve funds for the benefit of its local PRC employees. The amounts of such contributions will depend on local laws and regulations. The Group has no further obligations in respect of the actual payment of pensions beyond these contributions. The State-sponsored plans are responsible for the entire pension obligations payable to retired employees.

Insurance

As required under PRC insurance laws and regulations, the Group maintains all risk and third-party insurance policies for all its properties under construction. The Group does not maintain insurance policies for properties that have been delivered to its customers. The Group also maintains, on a voluntary basis, personal accidental insurance and supplementary medical insurance for its employees. The Group confirms that its insurance coverage is sufficient for our present purposes and is consistent with coverage for other similar companies in the real estate industry in China. Please refer to the section headed "*Risk Factors — The Group is subject to uninsured risks*" for additional information.

Environmental Matters

Real estate developers in China are subject to a number of environmental laws and regulations, including the PRC Environment Protection Law, the PRC Law on Prevention and Control of Noise Pollution, the PRC Law on Environmental Impact Assessment, and the Administrative Regulations on Environmental Protection in relation to Construction Environment. Please refer to "*Risk Factors — Present or future environmental laws in the PRC may adversely affect the Group's principal business*" for details of these environmental laws and regulations and the effect that they may have on the Group's business.

Each of the Group's property developments is required to undergo environmental assessments and submit the related environmental impact assessment document to the relevant government authorities for approval prior to the commencement of property development. On the completion of each property development, the relevant government authorities inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record. The Group believes that its operation is in compliance with currently applicable national and local environmental and safety regulations in all material respects.

Legal Proceedings

The Group is not currently engaged in any material litigation as a defendant in any arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to its directors to be pending or threatened by or against the Group that would have a material adverse effect on its results of operations or financial condition.

DIRECTORS AND COMPANY MANAGEMENT

BOARD OF DIRECTORS

The following table sets forth certain information with respect to the Guarantor's Board as at the date of this Offering Circular.

Name	Age	Title
Mr. Chew Fook Aun	55	Chairman
Dr. Lam Kin Ming	80	Deputy Chairman
Mr. Lam Kin Hong, Matthew	50	Executive Deputy Chairman
Mr. Lam Hau Yin, Lester	36	Chief Executive Officer
Mr. Cheng Shin How	51	Executive Director
Mr. Lee Tze Yan, Ernest	53	Executive Director
Madam U Po Chu	93	Executive Director
Mr. Lucas Ignatius Loh Jen Yuh	51	Non-executive Director
Mr. Puah Tze Shyang	46	Non-executive Director
Mr. Ku Moon Lun	67	Independent Non-executive Director
Mr. Lam Bing Kwan	68	Independent Non-executive Director
Mr. Law Kin Ho	50	Independent Non-executive Director
Mr. Mak Wing Sum, Alvin	65	Independent Non-executive Director
Mr. Shek Lai Him, Abraham	72	Independent Non-executive Director

The Guarantor's Board consists of 14 Directors, five of whom are Independent Non-executive Directors. The powers and duties of the Board include: convening shareholders' meetings and reporting the Board's work at the shareholders' meetings, implementing the resolutions passed on the shareholders' meetings, determining the Guarantor's business plans and investment plans, formulating the Guarantor's annual budget and final accounts, formulating the Guarantor's proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Guarantor's Memorandum and Articles of Association. The Guarantor's Directors are elected at annual general meetings of the shareholders of the Guarantor, and are subject to retirement and re-election once every three years since their last election.

Biographical Details

Executive Directors:

Mr. Chew Fook Aun, Chairman, aged 55, has been the Chairman of the Board since 1 November 2012. He was appointed an Executive Director of the Guarantor on 5 June 2012 and is currently a member of both the Executive Committee and the Remuneration Committee of the Guarantor. Mr. Chew is also a deputy chairman and an executive director of Lai Sun Garment (International) Limited ("**LSG**"), the deputy chairman and an executive director of the Company as well as an executive director of eSun Holdings Limited ("**eSun**").

Prior to joining the Lai Sun Group, Mr. Chew was an executive director and the group chief financial officer of Esprit Holdings Limited ("**Esprit**") from 1 February 2009 to 1 May 2012, and an executive director and the chief financial officer of The Link Management Limited (now known as Link Asset Management Limited), acting as manager of The Link Real Estate Investment Trust (now known as Link Real Estate Investment Trust ("**Link REIT**")), from February 2007 to January 2009. He was also the chief financial officer of Kerry Properties Limited ("**Kerry Properties**") from 1996 to 2004, a director of corporate finance for Kerry Holdings Limited from 1998 to 2004 and an executive director of Kyard Limited in charge of the property portfolio of a private family office from 2004 to 2007. The issued shares of Esprit and Kerry Properties and the issued units of Link REIT are listed and traded on the Main Board of the Stock Exchange.

Mr. Chew has over 30 years of experience in accounting, auditing and finance in the United Kingdom ("**UK**") and Hong Kong. He graduated from the London School of Economics and Political Science of the University of London in the UK with a Bachelor of Science (Economics) Degree. Mr. Chew is a fellow member of both the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and The Institute of Chartered Accountants in England and Wales. He was also a council member of the HKICPA and its vice president in 2010. Mr. Chew is currently a member of the Operations Review Committee of the Independent Commission Against Corruption ("**ICAC**") and a member of the Barristers Disciplinary Tribunal Panel, both being organisations established in Hong Kong. In addition, he was appointed as a member of the Board of Directors to the Hong Kong Sports Institute Limited for a term of two years with effect from 1 April 2017. He was a member of the Advisory Committee of the Securities and Futures Commission, the Corruption Prevention Advisory Committee of the ICAC, the Standing Committee on Company Law Reform of the Companies Registry and a council member of the Financial Reporting Council.

Dr. Lam Kin Ming, Deputy Chairman, aged 80, was appointed an Executive Director of the Guarantor in September 1997. Dr. Lam is the chairman and an executive director of LSG, a non-executive director of the Company and the chairman, the chief executive officer and an executive director of Crocodile Garments Limited, a company listed on the Main Board of the Stock Exchange.

Dr. Lam received an Honorary Doctoral Degree from the International American University in the United States of America in 2009 and was admitted as Honorary Doctorate of Management of the Lincoln University in the United States of America in February 2014. He has extensive experience in property development and investment and garment businesses and has been involved in the management of the garment business since 1958.

Dr. Lam is the elder brother of Dr. Lam Kin Ngok, Peter (a substantial shareholder of the Guarantor within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong) ("**SFO**") and Mr. Lam Kin Hong, Matthew (Executive Deputy Chairman of the Guarantor) and an uncle of Mr. Lam Hau Yin, Lester (Chief Executive Officer of the Guarantor).

Mr. Lam Kin Hong, Matthew, Executive Deputy Chairman, aged 50, was appointed an Executive Director of the Guarantor in December 2001. Mr. Lam is an executive director of LSG and Crocodile Garments Limited (a company listed on the Main Board of the Stock Exchange).

Mr. Lam graduated from University College London in the UK with a Bachelor of Science Degree and underwent training as a lawyer with Reed Smith Richards Butler, an international law firm. He is a Co-founding Partner and Managing Partner of Nixon Peabody CWL in Hong Kong and a member of The Law Society of Hong Kong and The Law Society of England and Wales.

Mr. Lam has considerable experience in property development and corporate finance in Hong Kong and the PRC. He is the vice president cum chairman of the Hong Kong Real Property Federation cum Yangtze River Delta Region and a standing committee member of the Chinese People's Political Consultative Conference in Shanghai.

Mr. Lam serves as the Honorary Consul of the Republic of Estonia in Hong Kong. He is also a Council Member of the Business Advisory Council of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

Mr. Lam is the younger brother of Dr. Lam Kin Ming (Deputy Chairman of the Guarantor) and Dr. Lam Kin Ngok, Peter (a substantial shareholder of the Guarantor within the meaning of Part XV of the SFO) and an uncle of Mr. Lam Hau Yin, Lester (Chief Executive Officer of the Guarantor).

Mr. Lam Hau Yin, Lester, Chief Executive Officer, aged 36, was appointed an Executive Director of the Guarantor in April 2005 and is currently a member of the Executive Committee of the Guarantor. He is also an executive director of LSG, the Company and eSun as well as an alternate director to Madam U Po Chu in her capacity as an executive director of LSG.

Mr. Lam holds a Bachelor of Science in Business Administration Degree from the Northeastern University in Boston of the United States of America. He completed the Kellogg-HKUST Executive MBA program in July 2016. Mr. Lam has acquired working experience since 1999 in various companies engaged in securities investment, hotel operations, environmental products, entertainment and property development and investment.

Mr. Lam is a son of Dr. Lam Kin Ngok, Peter (a substantial shareholder of the Guarantor within the meaning of Part XV of the SFO), a nephew of Dr. Lam Kin Ming (Deputy Chairman of the Guarantor) and Mr. Lam Kin Hong, Matthew (Executive Deputy Chairman of the Guarantor) and a grandson of Madam U Po Chu (Executive Director of the Guarantor).

Mr. Cheng Shin How, aged 51, was appointed an Executive Director of the Guarantor in June 2007 and is currently a member of the Executive Committee of the Guarantor.

Prior to joining the Guarantor, Mr. Cheng was the Regional Director of the Hong Kong and Macau office of CapitaLand Limited ("**CapitaLand**", together with its subsidiaries, "**CapitaLand Group**"). He joined CapitaLand Group in 1999 and has been involved in CapitaLand Group's real estate investment in Hong Kong, Macau and the PRC. Prior to joining CapitaLand Limited, Mr. Cheng worked with CB Richard Ellis, an international property consultancy firm where he was involved in property valuation, development and investment consultancy. He has been involved in the PRC business since 1993. Mr. Cheng graduated with an Honours Degree in Land Management from the University of Reading, UK.

Mr. Lee Tze Yan, Ernest, aged 53, was appointed an Executive Director of the Guarantor in January 2015 and is currently a member of the Executive Committee of the Guarantor.

Mr. Lee joined the Lai Sun Group as Group Director — Project Development in June 2012. He has over 20 years of experience in the architectural and property development industries, holding senior positions. Prior to joining the Lai Sun Group, he was a senior project management executive of the Henderson Land Group for 18 years, supervising the execution and completion of numerous large-scale quality developments in both Hong Kong and the PRC.

Mr. Lee graduated from the Faculty of Architecture, the University of Hong Kong, with a Bachelor of Architecture degree and a Bachelor of Arts in Architectural Studies degree. He also holds a post-graduate degree in Master of Business Administration from the Southern Illinois University at Carbondale in the United States of America. Mr. Lee has been a member of both the Hong Kong Institute of Architects ("**HKIA**") and the Royal Institute of British Architects ("**RIBA**"), as well as an Authorized Person (List of Architects) and a Registered Architect in Hong Kong for over 20 years. He attained the qualifications of PRC Class 1 Registered Architect Qualification and BEAM Pro.

Madam U Po Chu, aged 93, was appointed an Executive Director of the Guarantor in February 2003. She is also an executive director of LSG and a non-executive director of the Company and eSun.

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. She started to expand the business to fabric bleaching and dyeing in the early 1970's and became involved in property development and investment in the late 1980's.

Madam U is the mother of Dr. Lam Kin Ngok, Peter (a substantial shareholder of the Guarantor within the meaning of Part XV of the SFO), and the grandmother of Mr. Lam Hau Yin, Lester (Chief Executive Officer of the Guarantor).

Non-executive Directors:

Mr. Lucas Ignatius Loh Jen Yuh, aged 51, was appointed a Non-executive Director of the Guarantor in July 2010. He is presently a member of both the Audit Committee and the Remuneration Committee of the Guarantor.

Mr. Loh is currently a Director and Chief Executive Officer of CapitaLand China Holdings Pte Ltd ("**CapitaLand China**"). CapitaLand China is the holding company of CapitaLand LF (Cayman) Holdings Co., Ltd. which is a substantial shareholder of the Guarantor. CapitaLand China is a wholly-owned subsidiary of CapitaLand, one of Asia's largest listed real estate companies, headquartered and listed in Singapore. Mr. Loh has more than 10 years of experience in PRC's real estate market. He joined the CapitaLand Group in September 2001 and has been based in PRC since August 2004. Prior to his current appointment as Chief Executive Officer of CapitaLand China, Mr. Loh was a Deputy Chief Executive Officer, the Chief Investment Officer as well as Regional General Manager (South China) of CapitaLand China. He also held several appointments within the CapitaLand Group, including Managing Director for China of The Ascott Limited in the PRC.

Prior to joining the CapitaLand Group, Mr. Loh was an Associate Director for Private Equity Investment at Temasek Holdings (Private) Limited, which is a substantial shareholder of CapitaLand, leading its private equity investment business in the Asia Pacific region. Mr. Loh began his career in 1991 as a real estate appraiser in Singapore. He holds a Bachelor of Science (Estate Management) Degree from the National University of Singapore and a Master's Degree in Business Administration from the Oklahoma City University in the United States of America. He attended the Advanced Management Program at Harvard Business School in 2013. Mr. Loh is also a director of Beautiwin Limited and Guangzhou Beautiwin Real Estate Development Co., Ltd, two joint venture companies in which each of the Guarantor and CapitaLand China has an indirect 50 per cent. and 47.5 per cent. interest, respectively. Mr. Loh is currently a non-executive director and the vice-chairman of Central China Real Estate Limited, the issued shares of which are listed and traded on the Main Board of the Stock Exchange.

Mr. Puah Tze Shyang, aged 46, was appointed a Non-executive Director of the Guarantor in April 2017. He is also the alternate director to Mr. Lucas Ignatius Loh Jen Yuh, a Non-executive Director of the Guarantor.

Mr. Puah is currently the Chief Investment Officer and the Regional General Manager, Southwest China ("**RGM Southwest China**") of CapitaLand China. CapitaLand China is a wholly-owned subsidiary of CapitaLand, one of Asia's largest listed real estate companies, headquartered and listed in Singapore. CapitaLand China is a long-term real estate developer of high quality homes, commercial properties and integrated developments in China. CapitaLand China is the holding company of CapitaLand LF (Cayman) Holdings Co., Ltd., a substantial shareholder of the Guarantor.

As CapitaLand China's Chief Investment Officer, Mr. Puah is responsible for CapitaLand China's real estate investments, asset management and investment platforms. Concurrently, as RGM Southwest China, Mr. Puah oversees a combined portfolio of seven residential projects and one integrated development in Chengdu, Wuxi, Xi'an and Shenyang. Mr. Puah is an alternate council member for the Singapore-Sichuan Trade and Investment Council. He had previously served as alternate council member for the Singapore-Liaoning Economic and Trade Council.

Mr. Puah joined Surbana Corporation Pte Ltd ("**Surbana Corporation**") in July 2003. Surbana Corporation became known as CapitaLand Township Holdings Pte. Ltd. ("**CapitaLand Township**") after CapitaLand acquired a 40 per cent. stake in it in 2011, and CapitaLand subsequently raised its stake in CapitaLand Township to 100 per cent. in March 2015. From 2010 to March 2015, Mr. Puah was the Chief Executive Officer of CapitaLand Township Pte. Ltd. (formerly known as Surbana International Investment Pte. Ltd. from October 2006 to May 2007, and Surbana Land Pte. Ltd. from May 2007 to April 2013), a subsidiary of CapitaLand Township.

Mr. Puah started his career in real estate in 1997. Prior to joining Surbana Corporation, Mr. Puah was an Executive Engineer in the Housing and Development Board of Singapore ("**HDB**"), and he later helmed HDBuilders.com, a construction portal offering e-collaboration and e-procurement services for the real estate industry in Singapore.

Mr. Puah received an overseas undergraduate scholarship from HDB and obtained his Masters of Engineering (First Class Honours) degree in Electrical and Electronic Engineering from Imperial College of Science, Technology and Medicine in 1997. He was later awarded a Post-graduate scholarship from Surbana Corporation and obtained his Executive Masters of Business Administration (Honours) degree from Chicago Booth School of Business in 2010.

Mr. Puah is currently a non-executive director of Central China Real Estate Limited, a company listed on the Main Board of the Stock Exchange.

Independent Non-executive Directors:

Mr. Ku Moon Lun, aged 67, was appointed an Independent Non-executive Director of the Guarantor in June 2006 and is currently a member of the Remuneration Committee of the Guarantor.

Mr. Ku has over 35 years of experience in the real estate industry. He is currently an independent non-executive director of Kerry Properties Limited (the issue shares of which are listed and traded on the Main Board of the Stock Exchange) and a non-executive director of Surbana Jurong Pte Ltd. in Singapore. Mr. Ku is a member of the Hospital Governing Committee of Queen Elizabeth Hospital, Hong Kong Hospital Authority. He is also a fellow member of the Hong Kong Institute of Surveyors.

Mr. Ku was an executive director of Davis Langdon & Seah International ("**DLSI**"), a property consultant firm, until the end of 2005 where he was responsible for formulating the policies and steering the direction of the DLSI group of companies. He was also the chairman of the board of directors of Davis Langdon & Seah Hong Kong Limited from 1995 to 2004. Mr. Ku was previously the chairman of Premas Hong Kong Limited, a facilities management company, from 2000 to 2002 and icFox International, an information technology company, from 2000 to 2003.

Mr. Lam Bing Kwan, aged 68, was appointed an Independent Non-executive Director of the Guarantor in July 2001 and is currently the chairman of the Remuneration Committee and a member of the Audit Committee of the Guarantor.

Mr. Lam graduated from the University of Oregon in the United States of America with a Bachelor of Business Administration Degree in 1974. Having been actively involved in property development and investment in the PRC since the mid-1980's, he has substantial experience in this industry. Mr. Lam has served on the boards of directors of a number of listed companies in Hong Kong for over 10 years and is currently an independent non-executive director of LSG, the Company and eForce Holdings Limited as well as a non-executive director of Sino-i Technology Limited and Nan Hai Corporation Limited. The issued shares of all the aforesaid companies are listed and traded on the Main Board of the Stock Exchange.

Mr. Law Kin Ho, aged 50, was appointed an Independent Non-executive Director of the Guarantor in March 2009 and is currently the chairman of the Audit Committee and a member of the Remuneration Committee of the Guarantor.

Mr. Law is a fellow member of the HKICPA and the Association of Chartered Certified Accountants, United Kingdom. He is an independent non-executive director of Creative China Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Law has extensive experience in the auditing and accounting fields in Hong Kong and is currently a practicing certified public accountant in Hong Kong. Prior to starting his own practice, Mr. Law worked with Yuanta Securities (Hong Kong) Company Limited, the Stock Exchange and Ernst & Young.

Mr. Mak Wing Sum, Alvin, aged 65, was appointed an Independent Non-executive Director of the Guarantor in November 2012. Mr. Mak is a Chartered Accountant and is a member of the Canadian Institute of Chartered Accountants as well as a member of the HKICPA. He is currently an independent non-executive director of I.T Limited, Luk Fook Holdings (International) Limited, Hong Kong Television Network Limited, Goldpac Group Limited and Crystal International Group Limited. The issued shares of all the aforesaid companies are listed and traded on the Main Board of the Stock Exchange. He has also been a member of Hong Kong Housing Society since May 2015 and is currently a member of certain of its committees.

After working in Citibank for over 26 years, Mr. Mak retired on 1 May 2012. He last served as the Head of Markets and Banking for Citibank Hong Kong, being the country business manager for corporate and investment banking business. In Citibank, he had held various senior positions including Head of Global Banking responsible for managing all the coverage bankers. Prior to that, he also managed the Hong Kong's corporate finance business, regional asset management business and was the Chief Financial Officer of North Asia. Before joining Citibank in 1985, Mr. Mak was an audit group manager at Coopers & Lybrand (now known as PricewaterhouseCoopers). He worked for Coopers & Lybrand for eight years, five of which was in Toronto, Canada. He graduated from the University of Toronto with a Bachelor of Commerce degree in 1976.

Mr. Shek Lai Him, Abraham, aged 72, was appointed an Independent Non-executive Director of the Guarantor in December 2012. He was appointed as Justice of the Peace in 1995 and awarded the Gold Bauhinia Star in July 2013. He has been a member of the Legislative Council for the Hong Kong Special Administrative Region of the PRC, representing the real estate and construction functional constituency since 2000.

Mr. Shek acts as an independent non-executive director of a number of companies listed on the Main Board of the Stock Exchange, including Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Country Garden Holdings Company Limited, MTR Corporation Limited, Hop Hing Group Holdings Limited, SJM Holdings Limited, China Resources Cement Holdings Limited, Cosmopolitan International Holdings Limited, Goldin Financial Holdings Limited, Eagle Asset Management (CP) Limited acting as the manager of Champion Real Estate Investment Trust and Regal Portfolio Management Limited acting as the manager of Regal Real Estate Investment Trust. Moreover, he is the chairman and an independent non-executive director of Chuang's China Investments Limited as well as the vice chairman and an independent non-executive director of ITC Properties Group Limited. Mr. Shek was an independent non-executive director of Titan Petrochemicals Group Limited, Hsin Chong Construction Group Ltd. (now known as Hsin Chong Group Holdings Limited), Dorsett Hospitality International Limited, TUS International Limited and ITC Corporation Limited (until 28 March 2017).

Mr. Shek is also a non-executive director of the Mandatory Provident Fund Schemes Authority, a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, a Member of the Court and the Council of The University of Hong Kong and a Member of the Court of The Hong Kong University of Science and Technology. He was the Vice-Chairman of the Independent Police Complaints Council in Hong Kong, a member of the 5th Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference of the PRC and a director of The Hong Kong Mortgage Corporation Limited. He graduated from the University of Sydney, Australia with a Bachelor of Arts Degree and a Diploma in Education.

Compensation of Directors

The aggregate amount of fees, salaries, value of equity-settled share options, contributions to pension schemes, other allowances and benefits in kind paid by the Guarantor to its directors during the fiscal years ended 31 July 2016 and 2017 was approximately HK$21.7 million and HK$22.6 million, respectively.

Director's Interests in Competing Businesses

The following Directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the Guarantor's business pursuant to the Listing Rules:

Mr. Chew Fook Aun, Dr. Lam Kin Ming, Mr. Lam Kin Hong, Matthew, Mr. Lam Hau Yin, Lester, Madam U Po Chu, Mr. Lucas Ignatius Loh Jen Yuh and Mr. Puah Tze Shyang (together, "**Interested Directors**") held shareholding or other interests and/or directorships in companies/entities engaged in the businesses of property investment and development in the PRC.

However, the Board is independent from the boards of directors/governing committees of the aforesaid companies/entities and none of the Interested Directors can personally control the Board. Further, each of the Interested Directors is fully aware of, and has been discharging, his/her fiduciary duty to the Guarantor and has acted and will continue to act in the best interest of the Guarantor and its shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

Board Committees

Remuneration Committee

The Board established a Remuneration Committee on 18 November 2005, which currently comprises three Independent Non-executive Directors, a Non-executive Director and an Executive Director. The members of the Remuneration Committee are Messrs. Lam Bing Kwan (Chairman), Ku Moon Lun, Law Kin Ho, Lucas Ignatius Loh Jeh Yuh and Chew Fook Aun.

The Remuneration Committee has been charged with the responsibility of making recommendations 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, share options, benefits in kind and pension rights, to ensure that the level of remuneration offered by the Guarantor is competitive and sufficient to attract, retain and motivate personnel of the required quality to manage the Guarantor successfully.

Nomination Committee

The Guarantor has not established a nomination committee whose functions are assumed by the full Board. Potential new Directors will be recruited based on their knowledge, skills, experience and expertise and the Guarantor's requirements at the relevant time and candidates for the Independent Non-executive Directors must meet the independence criterion. The process of identifying and selecting appropriate candidates for consideration and approval by the Board has been, and will continue to be, carried out by the Executive Directors.

Audit Committee

The Board established an Audit Committee on 31 March 2000 which currently comprises two Independent Non-executive Directors, namely Mr. Law Kin Ho (Chairman) and Mr. Lam Bing Kwan, and a Non-executive Director, Mr. Lucas Ignatius Loh Jeh Yuh.

The principal responsibilities of the Audit Committee include the monitoring of the integrity of the Group's periodical financial statements, the review of significant financial reporting judgments contained in them before submission to the Board for approval and the review and monitoring of the auditor's independence and objectivity as well as the effectiveness of the audit process.

The Audit Committee will review the Group's half-yearly and annual results, and consider other matters relating to its financial and accounting policies and practices.

Executive and Non-executive Directors' remuneration

	For the year ended 31 July	
	2016	**2017**
	(HK$ in '000)	
Executive Directors:		
Lam Kin Ming	1,140	1,140
Lam Kin Hong, Matthew	1,197	1,197
Lam Hau Yin, Lester	1,627	1,622
Lee Tze Yan, Ernest	1,450	1,510
U Po Chu	4,318	4,275
Cheng Shin How	6,619	7,105
Chew Fook Aun	3,959	4,275
Total	20,310	21,124
Non-executive Directors:		
Lucas Ignatius Loh Jen Yuh	—	—
Puah Tze Shyang	—	—
Total	—	—

Independent Non-executive Directors' remuneration

	For the year ended 31 July	
	2016	**2017**
	(HK$ in '000)	
Law Kin Ho	275	300
Lam Bing Kwan	275	300
Ku Moon Lun	275	300
Mak Wing Sum, Alvin	275	300
Shek Lai Him, Abraham	275	300
Total	1,375	1,500

Share Option Schemes

At the extraordinary general meeting of the Guarantor held on 18 December 2012, the shareholders of the Guarantor approved the adoption of a new share option scheme (the "**2012 Share Option Scheme**") and the termination of the share option scheme adopted by the Guarantor on 21 August 2003 (the "**2003 Share Option Scheme**"). Upon the termination of the 2003 Share Option Scheme, no more options will be granted thereunder but the subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the 2003 Share Option Scheme. The 2012 Share Option Scheme is designed to recognise the contribution or future contribution of the Eligible Participants (as defined in the scheme) for their contribution to the Group and to attract, retain and motivate high-caliber Eligible Participants in line with the performance goals of the Relevant Companies (as defined in the scheme). Unless otherwise cancelled or amended, the 2012 Share Option Scheme will remain in force for ten years from the date of its adoption.

Substantial Shareholders' Interests

As at the date of this Offering Circular, so far as is known by or otherwise notified to any Director or the chief executive of the Guarantor, the following corporations or individuals had an interest of more than 5 per cent. (long positions) in the Guarantor's shares and its underlying shares of equity derivatives as recorded in the register required to be kept under Section 336 of the SFO:

(A) Long positions in the ordinary shares of the Guarantor ("Shares")

Name	Capacity	Nature of Interest	Number of Shares	Approximate percentage of shareholding to total issued Shares (Note 1)
eSun	Owner of controlled corporations	Corporate	165,485,406 (Note 2)	50.77
The Company	Owner of controlled corporations	Corporate	165,485,406 (Note 2)	50.77
LSG	Owner of controlled corporations	Corporate	165,485,406 (Note 2)	50.77
Lam Kin Ngok, Peter	Owner of controlled corporations	Corporate	165,485,406 (Note 3)	50.77
Merit Worth Limited ("**MWL**")	Beneficial owner and owner of controlled corporation	Corporate	165,485,406 (Note 4)	50.77
Silver Glory Securities Limited ("**SGS**")	Beneficial owner	Corporate	77,780,773 (Note 4)	23.86
CapitaLand China	Owner of controlled corporation	Corporate	64,400,000 (Note 5)	19.76
CapitaLand China Investments Limited ("**CapitaLand Investments**")	Owner of controlled corporation	Corporate	64,400,000 (Note 5)	19.76
CapitaLand LF (Cayman) Holdings Co., Ltd. ("**CapitaLand Cayman**")	Beneficial owner	Corporate	64,400,000	19.76
CapitaLand	Owner of controlled corporations	Corporate	64,400,000 (Note 5)	19.76
Temasek Holdings (Private) Limited ("**Temasek**")	Owner of controlled corporations	Corporate	64,400,000 (Note 5)	19.76

Name	Capacity	Nature of Interest	Number of Shares	Approximate percentage of shareholding to total issued Shares *(Note 1)*
Third Avenue Management LLC	Investment manager	Corporate	23,941,600 *(Note 6)*	7.35%
Third Avenue Management LLC, on behalf of Whitman High Conviction Fund	Beneficial owner	Corporate	23,941,600 *(Note 6)*	7.35%
Yu Cheuk Yi	Beneficial owner	Personal	22,881,036 *(Note 7)*	7.02%
Yu Siu Yuk	Beneficial owner	Personal	22,881,036 *(Note 7)*	7.02%

Notes:

1. The percentage has been complied based on the total number of issued Shares as at the date of this Offering Circular (i.e. 325,921,734 Shares).

2. These interests in the Guarantor represented all the Shares beneficially owned by MWL (87,704,633 Shares or approximately 26.91 per cent. of the total issued Shares) and SGS (77,780,773 Shares or approximately 23.86 per cent. of the total issued Shares), both being wholly-owned subsidiaries of eSun. eSun is owned as to approximately 36.94 per cent. by the Company which in turn is owned as to approximately 53.33 per cent. by LSG. As such, both the Company and LSG were deemed to be interested in the same 165,485,406 Shares held by eSun.

3. Dr. Lam Kin Ngok, Peter was deemed to be interested in the same 165,485,406 Shares held by eSun by virtue of his personal and deemed interests in approximately 41.85 per cent. (excluding share option) of the issued share capital of LSG.

4. SGS is wholly owned by MWL which in turn is wholly owned by eSun. Therefore, MWL was deemed to be interested in the 77,780,773 Shares held by SGS and eSun was deemed to be interested in the 165,485,406 Shares held and deemed to be held by MWL.

5. These interests in the Guarantor represented the Shares beneficially owned by CapitaLand Cayman which is wholly owned by CapitaLand China which in turn is wholly owned by CapitaLand Investments while CapitaLand Investments is wholly owned by CapitaLand. Temasek was deemed to be interested in the same 64,400,000 Shares held by CapitaLand Cayman by virtue of its approximate 41.06 per cent. interest in the issued share capital of CapitaLand.

6. Third Avenue Management LLC, on behalf of Whitman High Conviction Fund held 23,941,600 Shares.

7. Mr. Yu Cheuk Yi and Ms. Yu Siu Yuk were both taken to be interested in the same 22,881,036 Shares which were held jointly by them.

(B) Long positions in the underlying Shares

Name	**Capacity**	**Number of underlying Shares**	**Approximate percentage of shareholding to total issued Shares** *(Note 1)*
Lam Kin Ngok, Peter	Beneficial Owner	321,918 *(Note 2)* (as adjusted)	0.10

Notes:

1. The percentage has been complied based on the total number of issued Shares as at the date of this Offering Circular (i.e. 325,921,734 Shares).

2. The interests in underlying Shares represented interests in a share option granted to Dr. Lam Kin Ngok, Peter under the 2012 Share Option Scheme of the Guarantor and the number has been adjusted on 15 August 2017 following the completion of the Share Consolidation of the Guarantor.

The Lai Sun Group

As at the date of this Offering Circular, eSun is the Guarantor's ultimate holding company holding indirectly approximately 50.77 per cent. shareholding of the Guarantor and 67.56 per cent. shareholding of MAGH. eSun is held indirectly as to approximately 36.94 per cent. by the Company, which in turn is owned as to approximately 53.33 per cent. by LSG.

The principal business activities of LSG and its subsidiaries include property development and investment in Hong Kong and investment holding.

The principal business activities of the Company and its subsidiaries include property investment, property development, investment in and operation of hotels and restaurants as well as investment holding.

eSun acts as an investment holding company and the principal activities of its subsidiaries include the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programmes, films and video format products, cinema operation, property development for sale and property investment for rental purposes as well as the development and operation of and investment in cultural, leisure, entertainment and related facilities.

MAGH acts as an investment holding company and the principal activities of its subsidiaries include film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

Directors' Interests

As at the date of this Offering Circular, the interests of the Guarantor's directors in the Guarantor's issued Shares, underlying Shares and debentures were as follows:

(1) The Guarantor

(a) Interests in Shares and underlying Shares

Name of Director	Capacity	Number of Shares	Number of underlying Shares	Total	Approximate percentage of shareholding to total issued Shares
Chew Fook Aun	Beneficial owner/ owner of controlled corporation	600,000 (Note 2)	1,009,591 (Note 1)	1,609,591	0.5
Lam Hau Yin, Lester	Beneficial owner	—	3,219,182 (Note 1)	3,219,182	1
Cheng Shin How	Beneficial owner	—	643,836 (Note 1)	643,836	0.2
Lee Tze Yan, Ernest	Beneficial owner	—	640,000 (Note 1)	640,000	0.2

Notes:

1. A share option was granted to each of Mr. Chew Fook Aun, Mr. Lam Hau Yin, Lester, Mr. Cheng Shin How and Mr. Lee Tze Yan, Ernest, the particulars of which are set out below:

Name of Director	Date of grant	Number of outstanding underlying Shares comprised in the option (as adjusted)[#]	Option period	Exercise price (as adjusted)
Chew Fook Aun	12/06/2012	1,009,591	12/06/2012 to 11/06/2020	HK$6.65 per Share
Lam Hau Yin, Lester	18/01/2013	3,219,182	18/01/2013 to 17/01/2023	HK$11.4 per Share
Cheng Shin How	18/01/2013	643,836	18/01/2013 to 17/01/2023	HK$11.4 per Share
Lee Tze Yan, Ernest	18/01/2013	640,000	18/01/2013 to 17/01/2023	HK$11.4 per Share

[#] The number of outstanding underlying Shares and the exercise price have been adjusted on 15 August 2017 following the completion of the Share Consolidation of the Guarantor.

2. These Shares are held by The Orchid Growers Association Limited, the entire issued share capital of which is beneficially owned by Mr. Chew Fook Aun.

(b) Interests in the 6.875 per cent. senior notes due 2018 issued by the Guarantor

Name of Director	Capacity	Nature of interests	Principal amount
Lam Kin Hong, Matthew	Owner of controlled corporation	Corporate (Note)	CNY23,600,000

Note: These notes are held by Tai Fu Holdings Limited, the entire issued share capital of which is beneficially owned by Mr. Lam Kin Hong, Matthew and his spouse.

(2) Associated corporation

Interests in eSun shares and underlying eSun shares

Name of Director	Capacity	Number of eSun shares	Number of underlying eSun shares	Total	Approximate percentage of shareholding to total issued eSun shares
Chew Fook Aun	Beneficial Owner	Nil	6,216,060 *(Note 1)*	6,216,060	0.42
Lam Hau Yin, Lester	Beneficial Owner	2,794,443	12,432,121 *(Note 2)*	15,226,564	1.02

Notes:

1. A share option was granted by eSun to Mr. Chew Fook Aun on 5 June 2012 to subscribe for a total of 6,216,060 eSun shares at an exercise price of HK$0.92 per eSun share during the period from 5 June 2012 to 4 June 2022.

2. A share option was granted by eSun to Mr. Lam Hau Yin, Lester on 18 January 2013 to subscribe for a total of 12,432,121 eSun shares at an exercise price of HK$1.612 per eSun share during the period from 18 January 2013 to 17 January 2023.

Except as disclosed above, none of the Guarantor's directors had any interests or short positions in the Guarantor's equity or debt securities or any of its associated companies as defined in Part XV of the SFO.

DESCRIPTION OF THE KEEPWELL DEED

The following contains summaries of certain key provisions of the Keepwell Deed. Such statements do not purport to be complete and are qualified in their entirety by reference to the Keepwell Deed. Defined terms used in this section shall have the meanings given to them in the Keepwell Deed.

Maintenance of Liquidity

Pursuant to the Keepwell Deed, the Company intends to procure (to the extent possible in its capacity as a shareholder of the Guarantor):

- each of the Issuer and the Guarantor to have sufficient liquidity to make timely payment of any amounts payable by each of them under or in respect of the Notes and the Guarantee of the Notes in accordance with the Terms and Conditions and/or the Deed of Guarantee; and

- each of the Issuer and the Guarantor to remain solvent and a going concern at all times under the laws of their respective jurisdictions of incorporation or applicable accounting standards.

Parent Investment

Pursuant to the Keepwell Deed, upon the occurrence of an Event of Default:

(a) the Company shall use its best endeavours (to the extent possible) to as soon as reasonably practicable obtain all relevant approvals in relation to:

   i. the investment in the Issuer and/or the Guarantor by investing, or procuring a subsidiary to invest, by way of equity investment or shareholders' loan or a combination thereof in, the Issuer and/or the Guarantor; and

   ii. the Purchase of Equity Interests (as defined in the Deed of Equity Interest Purchase Undertaking).

   (together the "**Support Options**"); and

(b) the Guarantor shall use its best endeavours (to the extent possible) to as soon as reasonably practicable obtain or procure to be obtained all relevant Approvals applicable to it and the Listed Subsidiaries in relation to the Support Options.

Notwithstanding any other provisions in the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking, upon obtaining the relevant Approvals in relation to one or more of the Support Options as contemplated in the Keepwell Deed, the Company shall be entitled to elect (at its absolute discretion) to execute the definitive agreements in relation to one or more of the Support Options (or a combination thereof) provided that the aggregate amount to be provided by the Company thereunder shall be no less than the Event of Default Amount.

The Company undertakes to promptly take any and all action necessary to comply with its obligations under the Keepwell Deed.

The Keepwell Deed is governed by and construed in accordance with the laws of England.

The following contains summaries of certain key provisions of the Deed of Equity Interest Purchase Undertaking. Such statements do not purport to be complete and are qualified in their entirety by reference to the Deed of Equity Interest Purchase Undertaking. Defined terms used in this section shall have the meanings given to them in the Deed of Equity Interest Purchase Undertaking.

Obligation to acquire Equity Interest

Upon the occurrence of an Event of Default, the Company shall use its best endeavours (to the extent possible) to as soon as reasonably practicable obtain all relevant Approvals applicable to it in relation to the entry into of an Equity Interest Transfer Agreement to purchase or procure a Subsidiary of the Company to enter into the Equity Interest Transfer Agreement to purchase (the "**Purchase**"):

- the Equity Interest held directly by the Issuer and/or the Guarantor and/or any of their respective subsidiaries, as designated by the Company and notified in writing to the Noteholders from time to time but in any event within five Business Days following the receipt of all Approvals; and

- in the absence of such designation and notification to the Noteholders as provided in the Deed of Equity Interest Purchase Undertaking, the Equity Interest held directly by all subsidiaries of the Guarantor.

Where "**Equity Interest**" means the capital stock held by a relevant transferor and which is subject to the Purchase pursuant to an Equity Interest Transfer Agreement.

The Purchase

By no later than five Business Days after the receipt of all Approvals, the Company shall determine (a) the purchase price of the Equity Interest(s) being the subject of the Purchase (the "**Purchase Price**") in accordance with any applicable laws and regulations effective at the time of determination; and (b) the other applicable terms relating to the Purchase, *provided that* the Purchase Price (together with the other amounts to be provided by the Company under the Keepwell Deed, if any) shall, subject to compliance with all applicable laws and regulations, be no less than the Event of Default Amount.

In relation to the Purchase of any Equity Interest relating to a Target Subsidiary:

- as soon as reasonably practicable following the receipt of all Approvals, the Company shall, and shall use its best endeavours in its capacity as a shareholder of the Guarantor to procure such Relevant Transferor to obtain as soon as practicable any approvals such Relevant Transferor may require in relation to the Purchase, and as soon as possible after obtaining the relevant approvals, to execute, and the Company shall use its best endeavours in its capacity as an indirect shareholder of the Guarantor to procure the board of directors of such Target Subsidiary to execute (where applicable) all necessary documents as may be required for approval of the transfer of the Equity Interests being the subject of the Purchase;

- the Company shall (after obtaining the relevant Approvals), if applicable, promptly complete the procedures in respect of withholding tax for such Relevant Transferor; and

- the Company shall procure that the completion of such Purchase shall take place on or prior to the 15th Business Day after the date of receipt of all outstanding Approvals or, if no Approvals are required or have already been obtained, on or prior to the 15th Business Day after the date of execution of the equity interest transfer agreement (the "**Purchase Closing Date**"), whereupon the Company shall pay, or procure the relevant Purchaser to pay to, or to the order of, such relevant transferor the Purchase Price in immediately available funds in Hong Kong dollars.

To the extent permissible under applicable laws, upon the completion of any Purchase, the Issuer and the Guarantor undertake to:

- in the event that a Relevant Transferor is not the Issuer or the Guarantor, procure such Relevant Transferor to promptly on-lend or distribute in full the relevant portion of the Purchase Price being an amount no less than the Event of Default Amount prior to any other use, disposal or transfer of the proceeds received; and

- promptly do all such things (including entering into and executing any agreements or arrangements required) and take all actions necessary for the Purchase Price received by the Issuer or the Guarantor from the Company or pursuant to any on-loan or distribution referred to in the Deed of Equity Interest Purchase Undertaking to be applied solely towards the payment in full of their respective then outstanding obligations under the Notes, the Guarantee of the Notes and the Deed of Covenant (including without limitation the payment of the principal amount of the Notes then outstanding as at the date of the Event of Default and any interest due and unpaid and/or accrued but unpaid on the Notes up to but excluding the date of such Event of Default occurring) prior to any other use, disposal or transfer of the proceeds received.

The Company shall, and shall procure each Purchaser and shall use its best endeavours to procure the Relevant Transferor to, use its best endeavours to do all such things and take all such actions as may be necessary or desirable to procure, subject to obtaining all relevant Approvals, the completion of the Purchase and the payment of the Purchase Price to or to the order of the Relevant Transferor(s) as soon as reasonably practicable in accordance with this Deed and the Equity Interest Transfer Agreement.

Notwithstanding any other provisions in the Deed of Equity Interest Purchase Undertaking and the Keepwell Deed, upon obtaining the relevant Approvals in relation to one or more of the Support Options, the Company shall be entitled to elect (at its absolute discretion) to execute the definitive agreements (including but not limited to the Equity Interest Transfer Agreement) in relation to one or both of the Support Options provided that the aggregate amount to be provided by the Company thereunder shall be no less than the Event of Default Amount.

The Deed of Equity Interest Purchase Undertaking is construed in accordance with the laws of England.

The Land System of the PRC

All land in the PRC is either State-owned or collectively-owned, depending on the location of the land. All land in the urban areas of a city or town is State-owned, and all land in the rural areas of a city or town and all land outside a city or town is, unless otherwise specified by law, collectively-owned. The State has the right to resume ownership of land and must provide appropriate compensation to the dispossessed parties in accordance with the law if required for the benefit of the public.

Although all land in the PRC is owned by the State or by collectives, private individuals, enterprises and other organisations are permitted to hold, lease and develop land for which they have been granted land use rights.

National Legislation

In April 1988, the Constitution of the PRC was amended by the National People's Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law of the PRC was amended to permit the transfer of land use rights for value.

Under the "Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas" (the "**Urban Land Regulations**") promulgated in May 1990, local governments at or above the county level have the power to grant land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the grant of land use rights upon payment of a grant premium.

Under the Urban Land Regulations, there are different maximum grant periods for different uses of land. They are generally as follows:

Use of land	Maximum grant period (years)
Commercial, tourism and entertainment	40
Residential	70
Industrial	50
Public utilities (education, science, culture, health and sports)	50
Other	50

Under the Urban Land Regulations, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume ownership of lawfully granted land use rights prior to the expiration of the term of the grant. If public interest requires the resumption of ownership by the State under special circumstances during the term of the grant, compensation must be paid by the State. A land user may lawfully assign, mortgage or lease its land use rights to a third party for the remainder of the term of the grant. Upon expiration of the term of the grant, renewal is possible, subject to the execution of a new contract for the grant of land use rights and the payment of a premium. If the term of the grant is not renewed, the land use rights and ownership of any buildings thereon will revert to the State without compensation.

In order to stop the illegal occupation and abusive use of land, prevent the overheating in investment in fixed assets in some areas, and implement the strict protection of cultivated land, the General Office of the State Council issued the "Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land" on 29 April 2004.

The notice addresses issues including: (i) continuing the rectification of the land market by cooperation between the MLR and other authorities on problems existing in the grant of State-owned land use right by way of tender, auction and invitation for bidding; (ii) strictly administering approvals of construction land; (iii) protecting basic agricultural land; (iv) strictly implementing the general strategy and annual plan for land use; (v) strictly implementing the balance between occupying and cultivating land; and (vi) actively promoting the reform of the administration system of land and resources. Approvals for converting agricultural land to non-agricultural construction land were suspended throughout China during the rectification period, except for certain major public infrastructure projects which required approved by the State Council.

On 26 March 2005, the General Office of the State Council promulgated the "Notice on Effectively Stabilising Housing Prices" to restrain the excessive growth of housing prices and promote the sound development of the real estate market. The notice provided that housing prices should be stabilised and the system governing housing supply should be vigorously adjusted and improved. In accordance with the notice, seven departments of the State Council, including the Ministry of Construction, issued the "Opinion on the Work of Stabilising Housing Prices" on 30 April 2005. The opinion stated: (i) local governments should focus on increasing the supply of low-to medium-end ordinary residential houses while controlling the construction of high-end residential houses; (ii) to curb any speculation in the real estate market, business taxes would be levied from 1 June 2005 on the total revenue arising from any transfer by individuals of houses within two years of purchase thereof or on the difference between the transfer price and the original price for any transfer of non-ordinary houses by individuals after two or more years of purchase; and (iii) the real estate registration department will no longer register the transfer of apartment units which are pre-sold, where such units have not obtained the relevant real estate ownership certificates.

On 24 May 2006, the General Office of the State Council further issued the "Notice on Adjusting the Housing Structure and Stabilising Housing Prices". The notice provided for six broad measures, including the following specific directives: (i) encourage mass-market residential developments and curb the development of high-end residential properties; (ii) enforce the collection of business taxes on property sales (business taxes will be levied on the entire sale price of any property sold within five years, or on the profit arising from any property sold after five years subject to possible exemptions for ordinary residential properties); (iii) restrict housing mortgage loans to not more than 70 per cent. of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq. m., the owners are still able to apply for housing mortgage up to an amount representing 80 per cent. of the total property price); (iv) halt land supply for villa projects and restrict land supply for high-end, low-density residential projects; (v) moderate the progress and scale of demolition of old properties for redevelopment; (vi) require local governments to ensure that at least 70 per cent. of the total development and construction area consists of units of less than 90 sq. m. in size (with any exceptions requiring the approval of the Ministry of Construction); and (vii) forbid banks to provide loans to any property developer whose total capital fund is less than 35 per cent. of the total investment amount of its development project.

On 30 August 2006, the State Council published the "Notice on Strengthening the Regulation and Control of Land", which regulates land management and the protection of cultivated land. According to the notice, land designated for industrial purposes shall be granted by way of tender, auction and bidding, but in any event shall not be sold below the reserve price.

On 30 December 2007, the "Notice of the General Office of the State Council on Strict Enforcement of Regulations and Policies Regarding Rural Collective Land Construction" was issued to introduce a series of measures to strengthen the administration and management of rural collective land construction.

On 3 January 2008, the State Council issued the "Circular on Saving Intensive-use Land" regarding land conservation and improving the efficiency of land use. The circular called on the relevant government agencies to map out large-scale "scientific infrastructure" programs, tighten land use approvals in both rural and urban areas and step up land market monitoring. The circular prescribed that, if land approved for development remains unused for more than two years, it should be recovered by the government. If the land remains idle for more than one year and less than two years, land developers should pay a 20 per cent. non-usage fee. More than 70 per cent. of the land used for the construction of urban housing should be designated for residential low-rent units, affordable housing, price-controlled housing and small units of less than 90 sq. m. The circular also stipulates that loans or financing will not be provided for land that is put to illegal use.

On 7 January 2010, the General Office of the State Council promulgated the "Notice on Promoting the Stable and Healthy Development of Real Estate Market" to restrain the excessive growth of housing prices and promote the sound development of the real estate market. The notice provided that the supply of low-income housing should be effectively ensured and housing consumption should be properly guided to restrict the housing demand for investment purposes. In accordance with the notice, the PRC Administration of Land and Resources issued the "Notice on Relevant Issues on Strengthening the Supply and Supervision of Land for Real Estate Development" on 8 March 2010 that stated local governments should accelerate planning to ensure the effective supply of land for housing construction use, effectively strengthen the supervision on land for housing construction use and establishing an information publication system.

On 17 April 2010, the State Council issued the "Circular on Resolutely Curbing the Excessive Hike of Property Prices in Some Cities (Guo Fa 2010 No. 10)", with measures designed to slow down rising housing prices and address the housing problems of the rural population. Under the Circular, all relevant departments are required to hasten their efforts to implement relevant policies and measures consistent with the Circular and are required to be proactive in interpreting market regulation polices with respect to real estate, among other items. In particular, the Circular increased the minimum down payment for a mortgage-financed purchase of a first residence with a GFA greater than 90 sq. m. to 30 per cent., increased the minimum down payment for a mortgage-financed purchase of a second residence to 50 per cent., and provided that the interest rate shall not be lower than 1.1 times the benchmark interest rate of the same grade for the same period as announced by the PBOC. The Circular also gave discretionary authority to commercial banks to use credit risk management principles to further adjust upwards down payment percentages and mortgage interest rates for buyers of second (or more) residences based on the number of residences purchased. Notably, the Circular also provided that in certain cities where housing prices are too high and increasing too fast (which includes cities where the Company has property development projects), and where there is a shortage in supply of housing, commercial banks may refuse to provide mortgage financing for the purchase of a third (or more) residence.

On 29 September 2010, the PBOC and CBRC jointly announced that mortgage lending for purchases of third homes and above shall be suspended. On 3 November 2010, the PBOC, CBRC, Ministry of Finance and the MOHURD jointly announced the new policy on the personal housing fund loan, requiring that the minimum down payment percentage of second home purchases shall be not less than 50 per cent. and the mortgage rates for second home purchases using the housing fund loan shall be not less than 110 per cent. of the lending rates of the current housing fund loan rate. In addition, the housing fund loan shall be suspended for any purchase of a third home or above.

On 26 January 2011, the General Office of the State Council issued the "Circular on Issues Concerning Further Properly Regulating and Controlling the Real Estate Market". According to this Circular, local governments shall effectively perform their duties of promoting the steady and healthy development of the real estate market, keep housing prices at a reasonable level and make more efforts to implement affordable housing projects. The business tax policy with respect to housing transfer by individuals shall be adjusted, and the entire income from a transfer of a privately-owned housing unit which was purchased less than five years ago shall be taxed. In addition, for a household which uses a housing loan to buy the second home, the down payment shall not be less than 60 per cent., and the loan interest rate shall not be lower than 1.1 times of the benchmark interest rate.

The "Notice of the General Office of the State Council on Continuing to Effectively Regulate the Real Estate Market" issued by the General Office of the State Council on 26 February 2013 provides that, with a view to continuing the regulation of the real estate market in 2013 and promoting the stable and healthy development of the real estate market, the following measures shall be taken:

- Prices in the real estate market shall be stabilised;

- Purchases of homes for investment purchases shall be restricted and the policies of the differentiated housing credit extension shall continue to be strictly enforced. Tax authorities shall closely cooperate with the departments of Housing and Urban-rural Development to levy individual income tax, which is payable on the sales of owner-occupied houses at 20 per cent. of the transfer income if the original value of the house sold can be verified through historical information (such as tax collection and administration, house registration, etc.);

- The supply of ordinary commercial housing and land for housing construction shall be increased;

- The planning and construction of affordable housing projects shall be accelerated; and

- Market regulation and expectation management shall be strengthened. From 2013 onwards, all regions shall raise the pre-sale threshold for commercial housing; reinforce the management of commercial housing pre-sale licensing regarding project investment, project image and progress, more accurately determining the delivery deadline to guide real estate developers to rationally determine house prices; and steadily push forward reform of the commercial housing pre-sale system.

On 29 September 2014, the PBOC and CBRC issued the "Notice of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Housing Financial Services", with a view to further improving financial services for the construction of affordable housing projects, continuing to support the reasonable housing consumption of residential households, and promoting the sustained and healthy development of the real estate market. The reasonable housing loan demand of residential households shall be actively supported. Banking financial institutions shall determine the specifics in this regard on their own according to risk profiles. Where a household that owns an existing property for which the property purchase loan has been paid off applies for a new loan to purchase another ordinary commodity housing for the purpose of improving living conditions, the relevant banking financial institution shall adopt the lending policies applicable to the first owner-occupied property. In cities where "property purchase control measures" have been cancelled or are not implemented, if a household that owns two or more existing properties for which the property purchase loans have been paid off applies for a new loan to purchase yet another new property, the relevant banking financial institution shall specifically determine the down payment ratio and the loan interest rate in a prudent manner based on the borrower's repayment capability, credit standing and other factors.

On 25 March 2015, the MLR and MOHURD jointly promulgated the "Notice of the Ministry of Land and Resources, MOHURD on Optimising the Supply Structure of Housing and Land to Promote Stable and Healthy Development of Real Estate Market in 2015". According to the notice, a city and the county in which there is an oversupply of housing or the scale of residential land is too big should reduce the supplying of residential land until the suspension of the supply plan. Any city with prominent imbalances between supply and demand should increase the scale of residential land according to the actual situation. For commercial housing projects under construction, the Department of Urban and Rural planning, under the premise of keeping the volume and condition of land, can allow estate enterprises to adjust housing structure to meet the market demand in order to satisfy the self-living and improving-living demand.

On 30 March 2015, the Ministry of Finance and State Administration of Taxation announced the "Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Business Tax Policies Concerning Transfer of Individual Housing", which provides that where an individual sells a house that was purchased less than two years ago, business tax shall be levied on the full amount of the sales income. Where an individual sells a non-ordinary house that was purchased more than two years (inclusive) ago, business tax shall be levied on the difference between the sales income and the original purchase price of the house. The sale of an ordinary residential house by an individual who purchased the same house more than two years (inclusive) ago shall be exempted from business tax.

On the same day, the PBOC, MOHURD and CBRC jointly promulgated the "Notice of the People's Bank of China, the Ministry of Housing and Urban-rural Development and the China Banking Regulatory Commission on Matters concerning Individual Housing Loan Policies". According to this notice, where a household which has already owned a home but has not paid off the relevant housing loan, applies for another commercial personal housing loan to purchase another ordinary housing property for the purpose of improving living conditions, the minimum down payment is adjusted to 40 per cent. For working households that have contributed to the housing fund and that have already owned a home and have paid off the corresponding housing loans, when they apply, a second time, for the housing fund loans for the purchase of an ordinary residential house as their second home in the interest of improving their housing conditions, the minimum down payment shall be 30 per cent. of the house price.

On 1 February 2016, the PBOC and CBRC promulgated the "Notice on Issues concerning Adjusting the Individual Housing Loan Policies". In cities where "housing purchase restriction" measures are not implemented, the minimum down payment ratio for commercial individual housing loans granted to households of residents for purchasing ordinary housing units for the first time shall generally be 25 per cent., and may be lowered by five percentage points by local governments. Where a household which owns one housing unit but has not paid off the relevant housing loan applies again for a commercial individual housing loan to purchase an ordinary housing unit to improve living conditions, the minimum down payment ratio shall not be less than 30 per cent. In cities where "housing purchase restriction" measures are implemented, the individual housing loan policies shall remain unchanged. Banking financial institutions shall reasonably determine the specific down payment ratios and lending rates according to the minimum down payment ratio.

Grant

PRC law distinguishes between the ownership of land and the right to use land. Land use rights can be granted by the State to a person to entitle him to the exclusive use of a piece of land for a specified purpose within a specified term and on such other terms and conditions as may be prescribed. A premium is payable on the grant of land use rights. The maximum term that can be granted for the right to use a piece of land depends on the purpose for which the land is used. As described above, the maximum limits specified in the relevant regulations vary from 40 to 70 years depending on the purpose for which the land is used.

Under the Urban Land Regulations, there are three methods by which land use rights may be granted; namely, by agreement, tender or auction.

On 11 June 2003, the MLR promulgated the "Regulation on Grant of State-owned Land Use Rights by Agreement". According to this regulation, if there is only one intended user on a piece of land, the land use rights (excluding land use rights used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of agreement. The local land bureau, together with other relevant government departments, including the city planning authority, will formulate a plan addressing issues such as the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design, as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. The local land bureau and the interested person will negotiate and enter into the grant contract based on such plan. If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or bidding. Furthermore, according to the "Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Bidding," which came into effect on 1 July 2002, as amended and retitled as the "Rules on the Grant of State-owned Construction Land Use Rights through Public Tender, Auction and Losting-for-sale" and promulgated by the MLR in 2007, land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction or bidding. Furthermore, the grantee of State-owned construction land use rights shall fully pay the relevant land premium in accordance with the State-owned land granting contract before it can proceed with registration of and application for a State-owned Construction Land Use Rights Certificate.

Where land use rights are granted by way of tender, invitations to tender will be issued by the local land bureau. The invitation will set out the terms and conditions upon which the land use rights are proposed to be granted. A committee will be established by the relevant local land bureau to consider tenders which have been submitted. The successful bidder will then be asked to sign the grant contract with the local land bureau and pay the relevant land premium within a prescribed period. The land bureau will consider two factors: the satisfaction of the comprehensive evaluation criteria of the tender and the highest bid.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the bidder with the highest bid. The successful bidder will then be asked to enter into a grant contract with the local land bureau.

Where land use rights are granted by way of bidding, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bidding and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the highest bidder that satisfies the terms and conditions. The successful bidder will then enter into a grant contract with the local land bureau.

Upon the signing of the contract for the grant of land use rights, the grantee is required to pay the land premium pursuant to the terms of the contract and the contract is then submitted to the relevant local land bureau for the issue of the land use right certificate. Upon expiration of the term of the grant, the grantee may apply for renewal of the term. Upon approval by the relevant local land bureau, a new contract shall be entered into to renew the grant, and a grant premium shall be paid.

In order to control and facilitate the procedure of obtaining land use rights, several local governments have stipulated standard provisions for land grant contracts. Such provisions usually include terms such as use of land, land premium and manner of payment, building restrictions, including site coverage, total gross floor area and height limitations, construction of public facilities, submission of building plans and approvals, deadlines for completion of construction, town planning requirements, restrictions against alienation before payment of premium and completion of prescribed development and liabilities for breach of contract. Any change requested by the land user in the specified use of land after the execution of a land grant contract will be subject to approvals from the relevant local land bureau and the relevant urban planning department, and a new land use contract may have to be signed and the land premium may have to be adjusted to reflect the added value of the new use. Registration procedures must then be carried out immediately.

On 27 February 2007, the MLR and the Ministry of Finance jointly promulgated the "Provisional Measures on Financial Administration of Reserve Land Funds" for the purpose of improving the land reserve system, strengthening land regulation and control, regulating the operation of the real estate market, strengthening land administration and regulating land reserve administration.

On 8 September 2007, the MLR promulgated the "Notice on Strengthening the Disposal of Idle Land" providing that the Grant of State-owned Land Use Right shall be granted by way of "Cultivated Land". It means that the Grant of State-owned Land Use Right can only be transferred after the payment of compensation fees for landing and settlement and completion of the land development at the earlier stage. The notice also prescribes that the State-owned land use rights certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

On 28 September 2007, the MLR promulgated the revised "Rules on the Grant of State-owned Construction Land Use Rights through Public Tender, Auction and Listing-for-sale," which became effective on 1 November 2007. This regulation specifies that the grantee of State-owned land for development purposes rights shall fully pay the relevant land premium in accordance with the State-owned land grant contract before proceeding with the registration of and application for a State-owned Construction Land Use Rights Certificate.

On 19 November 2007, the MLR, the Ministry of Finance and the PBOC jointly promulgated the "Measures for the Administration of Reserved Land" ("**Reserved Land Measures**"). As defined in the Reserved Land Measures, reserved land refers to the phased development of land, and the reserving of land for county or city government projects. The purpose of reserving such land is to control the property market and promote the appropriate use of land resources. Under the Reserved Land Measures, the MLR, the Ministry of Finance and the PBOC will jointly draft plans for the implementation of projects located on reserved land and monitor the adherence of county and city governments to such plans. Before the implementation of such plans, relevant governmental approvals must be obtained.

On 18 November 2009, the Ministry of Finance, MLR, PBOC, Ministry of Supervision of the PRC and National Audit Office of the PRC jointly issued new rules to require a minimum down payment of 50 per cent. of the land premium relating to land purchases from the PRC Government. The new policy also provides that the instalment period stipulated in the relevant land grant contracts generally may not exceed one year, provided that, for special projects, upon collective approval by the relevant government authorities, the instalment period stipulated in the relevant land grant contracts may be two years.

In September 2010, the MLR and MOHURD jointly issued the "Notice On Further Strengthening the Administration and Control of Real Estate Land and Construction," which stipulates, among other things, that the planning and construction conditions and land use standards should be specified when a parcel of land is to be granted, and the restrictions on the area of one parcel of land granted for commodity properties should be strictly implemented. The development and construction of large low-density residential properties should be strictly restricted, and the floor area ratio for residential land is required to be more than 1. In addition, a property developer and its shareholders will be prohibited from participating in land bidding until such time as its prior violations, such as leaving land idle for more than one year for its own reasons, have been completely rectified.

On 27 February 2012, the MLR promulgated the "Measures on Administration of Plot Ratio of Construction Land," which came into effect on 1 March 2012. The measures require that any entity or individual should comply with the plot ratio indicators determined according to the regulatory detailed planning approved legally and should not adjust them randomly. The measures stipulate that any construction entity or individual is not allowed to arbitrarily change the determined plot ratio once the State-owned land use right is granted or allocated, except to amend if it meets certain conditions. If the adjustment is indeed required, the prescribed procedures shall comply with the measures and should not be replaced in the form of government meeting minutes, etc. According to the measures, if the plot ratio or other planning conditions of a parcel of land have not been determined, its State-owned land use right will not be granted. If the plot ratio or other planning conditions are not included in the land use right grant contract, such contract is null and void.

On 1 May 2012, the MLR promulgated the "Notice on Further Strengthening and Improving the Pre-examination of Land for Construction Projects" which reinforces the importance of pre-examination administration of land for commercial and industrial purposes. Taking advantage of tender, auction and listing-for-sale to avoid the pre-examination of the utility of land is strictly prohibited; entering into a land use right grant contract in advance or issuing a land use right certificate in substitute for a pre-examination opinion is also prohibited. Without passing a pre-examination, no application may be made for a project permit or construction land permit. On-line filing for records and tracking supervision shall also be strengthened.

Withdrawal of Land

According to the Law of Administration of Urban Real Property (the "**Urban Real Property Law**"), where a real property development is carried out on land for which the land use rights are acquired by means of grant, the land must be developed in line with the specified use for the land and the deadline for commencement of development must be set out in the land grant contract. Where the development does not commence within one year from the specified date set out in the land grant contract, an idle land fee may be charged at a rate equivalent to not more than 20 per cent. of the relevant land premium. Where the development does not commence within two years from the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or delays in preliminary work necessary for the commencement of development.

The “Notice on Strengthening the Disposing of Idle Land” issued by the MLR on 8 September 2007 emphasised the acceleration of disposal of idle land. The Notice adopts several measures, including: the imposition of an idle land penalty of up to 20 per cent. of the land premium and reclamation of the idle land without compensation as required by the relevant regulations. For land that becomes idle as a result of illegal government approval, such land shall be reclaimed before the end of 2007.

On 30 September 2007, the MLR issued the “Notice On Implementation of the Several Opinions of the State Council of the PRC on Solving Housings Shortage with respect to Urban Low-Income Household and Further Strengthening Control on Land Supply”. The objective of these regulations was to strengthen the disposal of idle land. Under the regulations, in cases where such land remains undeveloped one year after the construction commencement date, an idle land penalty on the real estate developer may be levied by the land regulatory authority, and the real estate developer would be required to remedy the situation within a prescribed period. The land regulatory authority may impose an idle land penalty of up to 20 per cent. of the land premium. In cases where such land remains undeveloped for two years, the land regulatory authority may reclaim the land. If the development of such land has commenced but development suspended without approval for one year, and the portion of the land that has been developed is less than one-third of the total area to be developed, or the amount of capital directly invested in the construction of the building is less than one-quarter of the total investment, such land shall be handled as idle land.

On 1 July 2012, the amendment of the “Measures on the Disposal of Idle Land”, or the “New Idle Land Measures” became effective. According to these measures, a parcel of land shall be defined as idle land if a State-owned construction land user fails to commence development and construction of construction land within one year of the starting date of the development and construction prescribed by the contract for paid use of State-owned construction land or the land allocation decision. A parcel of land can also be defined as idle land if the development and construction of the land has commenced, but the area developed and constructed is less than one-third of the total area to be developed or the invested amount is less than 25 per cent. of the total amount of investment, and development and construction has been suspended for one continuous year.

County-level and municipal administrative authorities may, with regard to discovery of a suspected idle land, conduct an investigation and verification on the relevant land within 30 days and give an Idle Land Investigation Notice to the land user. After the above investigation and verification procedure, if such land has been confirmed to be idle, county-level and municipal administrative authorities should issue a Confirmation Letter of Idle Land to the land user and make public the relevant information on their official website. With the exception that the delay in commencement of construction is caused by force majeure or acts of government under certain circumstances, an idle land should be disposed of according to the following guidelines: (i) if the construction work has not yet started after one year from the construction commencement date as stated above, county-level and municipal administrative authorities will, after obtaining approval from the people’s governments at the corresponding levels, issue a Decision on the Collection and Payment of Idle Land Fee to the land user, and a fine for idle land at 20 per cent. of the price of land granting or land allocation shall be imposed on the land user; or (ii) if the construction work has not begun after two years from the construction commencement date as stated above, a decision on the withdrawal of the land-use right will be issued to the land user and the right to use the land shall be taken back by the State without any compensation.

However, before making a decision on the above sanctions, the county-level and municipal administrative authorities should give a written notice to the land user informing its right to apply for a hearing. If the land user applies for a hearing, the county-level and municipal administrative authorities should organise it in accordance with the Regulations on the Hearings of Land Resources. Moreover, county-level and municipal administrative authorities will not accept the new land use application by a land user who has been identified as violating laws and regulations and disobeying the contract of paid use of construction land or land allocation decision and hoarding land or elevating land price with malice, or conduct the registration of transferring, lease, mortgage and amendment of the idle land before completing the treatments under the New Idle Land Measures.

Transfer

After land use rights relating to a particular area of land have been granted by the State, unless any restriction is imposed, the party to whom such land use rights are granted may transfer, lease or mortgage such land use rights for a term not exceeding the term which has been granted by the State. The difference between a transfer and a lease is that a transfer involves the vesting of the land use rights by the transferor in the transferee during the term for which such land use rights are vested in the transferor. A lease, on the other hand, does not involve a transfer of such rights by the lessor to the lessee. Furthermore, a lease, unlike a transfer, does not usually involve the payment of a premium. Instead, a rent is payable during the term of the lease. Land use rights cannot be transferred, leased or mortgaged if the provisions of the grant contract, with respect to the prescribed period and conditions of investment, development and use of the land, have not been complied with. In addition, different areas of the PRC have different conditions which must be fulfilled before the respective land use rights can be transferred, leased or mortgaged.

All transfers, mortgages and leases of land use rights must be evidenced by a written contract between the parties which must be registered with the relevant local land bureau at the municipality or country level. Upon a transfer of land use rights, all rights and obligations contained in the contract pursuant to which the land use rights were originally granted by the State are deemed to be incorporated as part of the terms and conditions of such transfer, depending on the nature of the transaction.

Under the Urban Real Property Law, real property that has not been registered and for which a title certificate has not been obtained in accordance with the law may not be assigned. Also, under the Urban Real Property Law if land use rights are required by means of a grant, the real property shall not be assigned before the following conditions have been met: (i) the premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a land use right certificate must have been obtained; (ii) investment or development must have been made or carried out in accordance with terms of the land grant contract; (iii) more than 25 per cent. of the total amount of investment or development must have been made or completed; and (iv) where the investment or development involves a large tract of land, conditions for use of the land for industrial or other construction purposes must have been satisfied. If the land use rights were originally obtained by allocation, transfer of the real property will be subject to the approval of the government vested with the necessary approval power as required by the State Council. Upon such approval, the transferee must complete the formalities for assignment of the land use rights, unless the relevant statutes require no assignment formalities, and pay the land premium according to the relevant statutes.

On 18 July 2006, China State Administration of Taxation promulgated the "Notice on Certain Issues Relating to the Collection of Individual Income Tax on Income Arising from Personal House Transfers". Pursuant to this notice, an individual income tax rate of 20 per cent. shall be imposed on the difference between the sale price and the original purchase price together with other reasonable transfer fees after 1 August 2006. An exception is granted where the transfer takes place five years after the original purchase date and the residential property is used by the transferor as his or her family's residence.

On 26 February 2013, the General Office of the State Council promulgated the "Notice of the General Office of the State Council on Continuing to Effectively Regulate the Real Estate Market", which provides that, tax authorities shall closely cooperate with departments of housing and urban-rural development to levy individual income tax payable on the sales of owner-occupied houses at 20.0 per cent. of the transfer income in strict accordance with the law if the original value of the houses sold can be verified through historical information such as tax collection and administration or house registration.

Termination

A land use right terminates upon the expiration of the term of the grant specified in the land grant contract and the resumption by the government of that right. Upon expiry, the land use right and ownership of the related buildings erected thereon and other attachments may be acquired by the State without compensation. The land user will take steps to surrender the land use right certificate and cancel the registration of the certificate in accordance with relevant regulations. A land user may apply for a renewal of its land use rights and, if the application is granted, the land user will enter into a new land grant contract, pay the relevant premium and effect appropriate registration for the renewed right.

The State generally will not withdraw a land use right before the expiration of its term of grant and for special reasons (such as in the public interests) and it must offer proper compensation to the land user, taking into account the surrounding circumstances and the period for which the land use right has been enjoyed by the user.

Document of Title

In the PRC, there are two registers for property interests. Land registration is achieved by the issuance of a land use right certificate by the relevant authority to the land user. It is evidence that the land user has obtained land use rights which can be assigned, mortgaged or leased. Building registration is achieved upon the issuance of a building ownership certificate or a real estate ownership certificate to the owner. It is evidence that the owner has obtained building ownership rights in respect of the building erected on a piece of land. According to the Land Registration Regulations promulgated by the State Land Administration Bureau on 18 December 1995 and implemented on 1 February 1996, and the Administrative Rules on Registration of Urban Real Estate Property promulgated by the Ministry of Construction on 27 October 1997 and implemented on 1 January 1998, and amended on 15 August 2001, the Land Registration Rules promulgated by the MLR on 30 December 2007 and effective 1 February 2008, and the Measures for Building Registrations promulgated by the Ministry of Construction on 15 February 2008, and effective on 1 July 2008, all land use rights and building ownership rights which are duly registered are protected by the law.

In connection with these registration systems, real estate and land registries have been established in the PRC. In most cities in the PRC, the above systems are separate systems. However, in Shenzhen, Shanghai, Guangzhou and some other major cities, the two systems have been consolidated and a single composite real estate ownership certificate will be issued evidencing the ownerships of both land use rights and the building erected thereon.

On 24 November 2014, the State Council promulgated the "Interim Regulations on Real Estate Registration", effective from 1 March 2015, which provides for the following, among others: i) the competent department of land and resources under the State Council shall be responsible for guiding and supervising the real estate registration of the State. The local government at or above the county level shall designate a department as the real estate registration authority within its administrative region, which shall be subject to the guidance and supervision by the competent real estate registration authority at the higher level; ii) the real estate authority shall establish a uniform real estate registration book to record the items including, without limitation, the natural condition and ownership conditions of the real estate, and restriction of rights; iii) the competent department of land and resources under the State Council shall, in coordination with other related departments, establish a uniform management platform for real estate registration information. The information registered by the real estate registration authorities at all levels shall be incorporated into the uniform management platform to ensure the real-time sharing of registration information at the national, provincial, municipal and county levels; and iv) any right holder or interested party may inquire about or copy the real estate registration materials and the registration authority shall not refuse to provide such information. Units and individuals inquiring about the real estate registration information shall not use such registration information for any other purposes and no such information may be disclosed to the public or others without the consent of the right holder.

The "Implementing Rules of the Interim Regulations on Real Estate Registration" issued by the MLR, effective from 1 January 2016, authorises the real estate registration authority to perform a site inspection following an acceptance of the application for real estate registration and sets out regulations regarding real estate registration information management.

Mortgage and Guarantee

The grant of mortgages in the PRC is governed by the Security Law of the PRC (the "**Security Law**") and by relevant laws regulating real estate. Under the Security Law, any mortgage contract must be in writing and must contain specified provisions including (i) the type and amount of the indebtedness secured; (ii) the period of the obligation; (iii) the name, quantity, quality, status, location and ownership of the land use rights of the mortgaged property; and (iv) the scope of the mortgage. For mortgages of urban real properties, new buildings on a piece of land after a mortgage has been entered into will not be subject to the mortgage.

The validity of a mortgage depends on the validity of the mortgage contract, possession of the real estate certificate and/or land use right certificate of the mortgagor and registration of the mortgage with authorities. If the loan in respect of which the mortgage was given is not duly repaid, the mortgagee may sell the property to settle the outstanding amount and return the balance of the proceeds from the sale or auction of the mortgaged property to the mortgagor. If the proceeds from the sale of such property are not sufficient to cover the outstanding amount, the mortgagee may bring proceedings before a competent court or arbitration tribunal (where there is an agreement to recover the amount still outstanding through arbitration) in the PRC.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) guarantees whereby the guarantor bears the liability when the debtor fails to perform its payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation.

The Property Law provides that the mortgage registration of buildings and other objects fixed to land, the right to use construction land, and a building under construction shall be gone through, such mortgage right shall be established as of the date of registration. The buildings newly constructed on the land after the mortgage of the right to use construction land shall not belong to the mortgaged properties. Such newly constructed buildings can be disposed of together with the disposal of the aforesaid right to use construction land so as to realise the mortgage right. However, the mortgagee has no right to seek preferred payments from the money generated from the disposal of these newly constructed buildings.

Pursuant to the Property Law, guarantee contracts must be in writing and creditors shall exercise their rights over the principal debt within the statute of limitations of the principal debt to preserve their rights before the People's court. The Property Law provides that where indebtedness is secured by both a guarantee and by mortgaged property, the creditor shall realise the creditor's rights as agreed with the counterpart. In the absence of an unambiguous agreement, and where the creditor provides his own property as security, creditors' rights shall be realised first from the mortgaged property. If the mortgaged property is provided by a third party, the creditor may choose to realise his rights either from the mortgaged property or guarantee. Such third party, after undertaking the security liability, has the right to claim compensation against the debtor.

The MLR on 30 December 2007 issued the "Administrative Measures on Land Registration". The measures took effect on 1 February 2008. According to the measures, land registration refers to the public recording of land-use rights. The measures stipulate that the administrative department of land and resources must make decisions on land registrations within 20 days after receiving an application. If the case is complex, a 10-day extension may be granted by the principal of land and resources' administrative department.

On 9 April 2008, the MLR released the "Circular on Implementing the Land Registration Measures and Further Strengthening Land Registration Work", which calls for stringent land registration according to laws, cessation of illegal registration, and prohibition of registration of illegally obtained land. The circular points out that the registrations will not be granted to cases involving unresolved land disputes, as well as cases where the full contract price has not been paid or where the land use has been changed illegally. In addition, the circular stipulates that persons without a Land Registration Qualification Certificate must not be engaged in land ownership investigation and examination. Any person responsible for incorrect or incomplete registrations must bear the consequences.

On 15 February 2008, the Ministry of Construction released Procedures for Property Registration (the "**Procedures**"). The Procedures took effect on 1 July 2008. The Procedures stipulate that in property registrations, the owners of the housing property rights should correspond with the owners of the land use rights. Based on the Property Law, the Procedures specifically regulate the pre-registration and registration of mortgage rights for construction work in progress, registration for maximum mortgage amount, registration of rectification, registration for objection and registration for easement.

Leasing

Both the Urban Land Regulations and the Urban Real Property Law permit leasing of granted land use rights and buildings thereon. However, the leasing of land use rights obtained by allocation and of buildings on such allocated land is regulated by the Urban Land Regulations.

The leasing of urban real properties is also governed by the Measures for Administration of Leasing of Commodity Buildings (the "**Measures**"), which was promulgated in accordance with the Urban Real Property Law. Under the Measures, owners of buildings in the PRC are entitled to lease their buildings, and landlords and tenants are required to enter into a written lease contract which must contain certain specified provisions. The contract has to be registered with the relevant property administrative authority at the municipality or country level within 30 days after its execution. A contract cannot be longer than the remainder of the term under the land grant contract. The tenant may, upon obtaining consent from the landlord, sublease the premises.

According to the Urban Real Property Law, where the owner of a house built on State-owned land leases his/her property and his/her land use rights were obtained through allocation for the purpose of profit making, any proceeds derived from the land in the form of rent must be paid to the State.

On 3 June 2016, the General Office of the State Council issued the "Opinions on Accelerating the Cultivation and Development of Leasing Market", which encourages real estate developers to carry out house leasing businesses. The said opinions support real estate developers in utilising built residential properties or newly built residential properties to carry out leasing businesses. The opinions also encourage real estate developers to put up the residential properties for rent and to cooperate with residential property leasing enterprises to develop rental properties.

Resettlement

On 21 January 2011, the State Council promulgated the "Regulation on Expropriation and Compensation Related to Buildings on State-owned Land," or the Expropriation and Compensation Regulation. The Expropriation and Compensation Regulation provides that, among other things:

- Buildings can be expropriated under certain circumstances for public interests, and governmental authorities are responsible for resettlement activities; real estate developers are prohibited from engaging in demolition and relocation operations;

- Compensation shall be paid before the resettlement;

- Compensation to owners of properties to be demolished cannot be less than the market value of similar properties at the time of expropriation. The market value of properties shall be determined by qualified real estate appraisal institutions in accordance with appraisal rules related to property expropriation. Any owner who does not agree with the appraised market value of the property may apply to the real estate appraisal institution for re-appraisal; and

- Neither violence nor coercion may be used to force home owners to leave sites, nor may certain measures, such as illegal suspension of water and power supplies, be used in relocation operations.

In addition to paying the demolition and removal compensation, the property developer undertaking the demolition and removal shall pay a removal allowance to the residents of the buildings to be demolished.

Property Development

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. A large tract development project consists of comprehensive development of an area to be suitable for industrial, levelling of the land and construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the land use rights of the developed area, or construct buildings on the land itself and sell or lease the buildings thereon.

Once the developer identifies a piece of land for development, it has to apply for a construction land use planning certificate from the relevant planning commission. Once this certificate is obtained, the developer will have to submit a detailed plan for the design of buildings and construction in order to obtain a construction works planning permit and work commencement permit.

Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law, the Prevention and Control of Noise Pollution Law, the Environmental Impact Assessment Law and the Administrative Regulations on Environmental Protection for Development Projects. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Pre-sale and Sale

Pursuant to the Urban Real Property Law and the Administrative Measures Governing the Pre-sale of Urban Real Estate (the "**Administrative Measures**") amended on 20 July 2004, commodity houses which have not been completed may be sold when certain conditions and/or requirements are satisfied.

The pre-sale of commodity houses is regulated by an approval system. Developers who intend to pre-sell their commodity houses shall apply to the relevant Real Estate Administration Department of the People's Government at the city or county level and obtain a pre-sale permit.

When commodity houses are pre-sold, the following requirements shall be satisfied according to the Urban Real Property Law and the Administrative Measures:

(i) the land premium in respect of the land use rights must be paid in full and the land use right certificate must have been obtained;

(ii) the construction works planning permit and the work commencement permit must have been obtained;

(iii) funds contributed to the development of the project shall amount to at least 25 per cent. of the total amount of the project investment, and project progress and the date of completion of the project for use must have been ascertained; and

(iv) the pre-sale approval must have been obtained.

On 13 April 2010, MOHURD issued the "Circular of Relevant Issues on Further Strengthening the Supervision on Real Estate Market and Improving the Commercial Housing Pre-selling System", which was issued to rectify and regulate the PRC real estate market and maintain the rights and interests of PRC housing consumers. Pursuant to the Circular, within ten days of obtaining a pre-sale permit for the sale of commodity residential property, an enterprise must disclose that such pre-sale permit has been obtained, and must establish the market price on the basis of the price included in the pre-sale permit application.

The relevant local pre-sale regulations have been issued in Shanghai, Guangdong Province, Shenzhen, Fuzhou, Xiamen, Qingdao and some other cities. Pursuant to the Regulations on the Transfer of Real Estate of Shanghai (the "**Regulations**") announced on 30 April 1997 and amended on 21 April 2004, the pre-sale of commodity houses in Shanghai is subject to the above-mentioned pre-sale regulations as well as the following principal requirements: (i) the construction work for commodity houses must have been completed up to the stipulated standard; (ii) the construction plan of the ancillary facilities must have been confirmed; (iii) a pre-sale fund escrow agreement with a local authorised real estate funding supervisory body must have been executed; and (iv) the covenant of use of the commodity houses must have been formulated and an initial property management service agreement must have been entered into with a real estate management company.

Pursuant to the "Regulations of Guangdong Province on the Administration of Housing Pre-sale" promulgated on 14 October 2000, and amended on 25 September 2014, the pre-sale of commodity houses in Guangdong Province is subject to the above-mentioned pre-sale regulations as well as the following principal requirements (i) the land premium has been fully paid and the land use right certificate has been obtained; (ii) the pre-seller has obtained a real estate development certificate and business license, and formalities for construction project quality and safety supervision have been made; (iii) the construction works planning permit and the work commencement permit have been obtained; (iv) pre-sale fund account have been opened; (v) the expected completion date has been determined (vi) certain construction process specified have been satisfied (vii) the pre-sale project or land use right thereof is free of encumbrance set up by third parties.

Pursuant to the "Notice Regarding the Adjustment to the Administration of Sale of Commodity Houses Sold in Domestic and Overseas Markets" issued by Beijing Administration of Land, Resources and Housing on 5 August 2002 and implemented on 1 September 2002, the distinction between sales in the domestic market and the overseas market has been abolished in Beijing. A standard property unit pre-sale permit will be issued to any project which meets the specified pre-sale conditions.

The "Provisions on Sales of Commodity Properties at Clearly Marked Price" was promulgated by the NDRC on 16 March 2011 and became effective on 1 May 2011. According to the provisions, any real estate developer or real estate agency ("**real estate operators**") is required to mark the selling price explicitly and clearly for both newly-built and second-hand commodity properties. The provisions require real estate operators to clearly indicate the prices and relevant fees of commodity properties, as well as other factors affecting the prices of commodity properties to the public. With respect to the real estate development projects that have received property pre-sale permits or have completed the filing procedures for the sales of constructed properties, real estate operators shall announce all the commodity properties available for sales within the specified time limit. Furthermore, with regard to a property that has been sold out, real estate operators are obliged to disclose this information and to disclose the actual transaction price. Real estate operators cannot sell commodity properties beyond the explicit marked price or charge any other fees not explicitly marked. Moreover, real estate operators may neither mislead properties purchasers with false or irregular price marking, nor engage in price fraud by using false or misleading price marking methods.

Real Estate Loans

On 5 June 2003, the PBOC promulgated the "Notice on Further Strengthening the Administration of Real Estate Loans". According to the notice, commercial banks shall focus their business towards supporting real estate projects targeted at mid to lower-income households and appropriately restrict the granting of real estate loans to projects involving spacious apartments, luxurious apartments and villas. The notice strictly prohibits banks from advancing working capital loans to real estate developers. When applying for a real estate loan, the real estate developer's own capital in any proposed real estate project should not be less than 30 per cent. of the total investment of the project. The notice also prohibits loans advanced for the payment of land premium for land use rights.

On 12 August 2003, the State Council published the "Notice by the State Council on Facilitating Sustained and Healthy Development of Real Estate Market", which provides a series of measures to control the real estate market, including but not limited to increasing the supply of common residential houses, controlling the construction of high-end commodity houses, and strengthening the supervision of real property administration. The purpose of the notice is to create a positive influence on the long-term development of the real estate market in China.

On 30 August 2004, the CBRC issued a "Guideline for Commercial Banks of Risks of Real Estate Loans". According to the guideline, no loan shall be granted to projects which have not obtained a land use right certificate, construction land planning permit, construction works planning permit and work commencement permit. The guideline also stipulated that not less than 35 per cent. of the total investment in a property development project must come from the real estate developer's own capital for the project in order for banks to extend loans to the real estate developer. In addition, the guideline requires commercial banks to set up strict approval systems for loan grants.

On 16 March 2005, the PBOC promulgated a "Notice on Adjusting the Housing Loan Policy and Deposit Rate of Excess Reserves for Commercial Banks" which cancelled the preferential mortgage lending interest rate for individuals and restricted the minimum mortgage loan rate to 0.9 times of the benchmark rate. The PBOC also increased the public housing fund rate by 0.18 per cent. and permitted commercial banks to decrease mortgage loan rate from 80 per cent. to 70 per cent. of the value of the property if it is located in a city where property prices are increasing too rapidly.

On 24 May 2006, the State Council issued the "Circular of the General Office of the State Council on Forwarding the Opinions of the MOHURD and other Departments on Adjusting the Housing Supply Structure and Stabilising the Housing Prices". In these regulations, strict credit conditions were imposed on property development. Commercial banks must not provide loans to property enterprises that fail to meet loan conditions, for example, having a project capital less than 35 per cent. Beginning 1 June 2006, the proportion of initial payment of individual housing mortgage loans must not be lower than 30 per cent. However, considering the demands for housing by the medium and low-income population, the purchase of self-used housing with gross floor area of no more than 90 sq. m. is still subject to the provision of the initial payment of housing at 20 per cent.

According to the "Opinions of the MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and SAFE on Regulating the Access and Management of Foreign Capital in the Real Estate Market," effective 11 July 2006, foreign-invested property enterprises which have not paid up their registered capital, failed to obtain a land use rights certificate, or bear less than 35 per cent. of the capital for the project will be prohibited from obtaining a loan in or outside the PRC, and SAFE must not approve the exchange settlements of foreign loans for such enterprises.

On 27 September 2007, the PBOC and CBRC jointly issued the "Notice on Strengthening the Administration of Commercial Real Estate Credit Loans," which places stringent requirements on loan grants to the second and subsequent purchases of housing by individuals. For those who used credit loans to purchase housing and subsequently applied for purchasing second (inclusive) housing, the down payment shall not be less than 40 per cent. of the total purchase price, while the interest rate of such loan shall not be lower than 1.1 times the benchmark interest rate of the same grade for the same period as announced by the PBOC. Moreover, the ratio of the down payment to the interest rate of the loan shall be adjusted upwards according to the number of purchases. The specific range of increase will be determined by commercial banks at their own discretion based on principles of credit risk management, however, the monthly expenses for an individual purchaser paying housing loans shall not be more than 50 per cent. of the purchaser's monthly income.

On 7 January 2010, the General Office of the State Council promulgated a "Notice on Promoting the Stable and Healthy Development of Real Estate Market" which provides that the down payment on a second bank loan-funded house must be at least 40 per cent. of the home's purchase price, and the interest rate should be determined in accordance with the risk.

On 26 May 2010, MOHURD, the PBOC and CBRC jointly issued the "Circular on Regulating the Criteria for Identifying the Second Housing Unit in Connection with Commercial Mortgage Loans", which provides, among others, that the number of housing units owned by an individual purchaser who is applying for mortgage loans shall be determined by taking into account all housing units owned by the family members of such purchaser (including the purchaser and such purchaser's spouse and children under the age of 18), and that purchasers of second or subsequent housing units shall be subject to different credit policies when applying for mortgage loans.

On 2 November 2010, MOHURD, the Ministry of Finance, PBOC and CBRC jointly issued the "Circular on Regulating the Policies for Individual Loan of Public Housing Funds". On 25 December 2010, the MOHURD issued the "Notice on Adjusting the Interest Rates for Deposition and Loan in the Public Housing Fund," according to which the deposition on the public housing fund carried from the previous year shall gain the interest rate of 2.25 per cent. and the rate for the part carried from the current year remains 0.36 per cent., and the interest rate for the loan from the public housing fund with the respective term of less than five years (including five years) or more than five years shall be both raised by 0.25 per cent., reaching 3.75 per cent. and 4.30 per cent., respectively. In 2011 and 2012, the interest rate for the loan from the public housing fund was adjusted several times. On 8 June 2012, the interest rate for the loan from the public housing fund with the respective term of less than five years (including five years) or more than five years shall be adjusted to 4.2 per cent. and 4.7 per cent., respectively, and the interest rate for the loan from the public housing fund for trial projects shall be 10.0 per cent. higher than the standard rates.

Local Legislation

While the Urban Land Regulations set out a general framework for transactions relating to land use rights, various local legislation regulates specific transactions within specific areas relating to the grant and transfer of land use rights. Some of them are inconsistent with the national legislation. The central authority has taken the position that if there are inconsistencies, the national legislation shall prevail.

Foreign Investment in Property Development

The Urban Land Regulations state that foreign entities may acquire land use rights in China unless the law otherwise provides. However, in order to develop the land acquired, foreign investment enterprises in the form of equity or co-operative joint ventures or wholly foreign owned enterprises must be established.

Establishment of a Foreign Investment Enterprise ("**FIE**") engaged in property development, commonly referred to as a "development company," is subject to approval by the relevant departments of China's government in accordance with relevant laws and regulations. To establish a FIE, the joint venture partners must submit a project application report to the central or local development and reform authority for project approval. At the same time, the parties typically proceed to negotiate and execute the joint venture contract and articles of association for the establishment of a development company. The project application report, the joint venture contract and/or articles of association shall then be submitted to the central or local foreign economic and trade authorities in their respective capacities for approval. Having obtained the approval certificate(s), the foreign investor and/or the domestic party can apply to the relevant industry and commerce authority for a FIE business license for the development company. In addition, all property development companies, including FIEs, are also required to apply for a property development enterprise qualification certificate from the central or local construction authority.

According to applicable laws, it is clear that the PRC Government will protect investments by foreign investors and their legal rights, and will not nationalise or appropriate any Sino-foreign joint venture or any foreign wholly-owned enterprise unless it is in the public interest and the relevant foreign investors are appropriately compensated.

On 11 July 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly promulgated the "Opinions on Foreign Investment in Real Estate", which states that: (i) an overseas entity or individual investing in real estate in China other than for self-use, shall apply for the establishment of a FIREE in accordance with applicable PRC laws and shall only conduct operations within the authorised business scope after obtaining the relevant approvals from, and registering with, the relevant governmental authorities; (ii) the registered capital of a FIREE with a total investment of US$10 million or more shall not be less than 50 per cent. of its total investment amount (for a FIREE with a total investment of less than US$10 million, the current rules on registered capital shall apply); (iii) a newly established FIREE can only obtain an approval certificate and business license which are valid for one year. The approval certificate and business license can be obtained by submitting the land use right certificate to the relevant government departments after the land grant premium for the land has been paid; (iv) an equity transfer of a FIREE or the transfer of its projects, as well as the acquisition of a domestic real estate enterprise by foreign investors, must first be approved by the Ministry of Commerce. The investor shall submit a letter to the Ministry of Commerce confirming that it will abide with the land grant contract, the construction land planning permit and the construction works planning permit. In addition, the investor shall also submit the land use right certificate, the registration of change of investor and evidence from the tax authorities confirming that tax relating to the transfer has been fully paid; (v) foreign investors acquiring a domestic real estate enterprise through an equity transfer, the purchase of a Chinese investors' equity interest in an equity joint venture or through any other methods shall pay the purchase price from its own capital and shall ensure that the enterprise's employees and bank loans are treated and dealt with in accordance with applicable PRC laws; (vi) if the registered capital of a FIREE is not fully paid up, its land use right certificate has not been obtained or the paid-in capital is less than 35 per cent. of the total investment amount of the project, the FIREE is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans; (vii) the investors in a FIREE shall not in any manner stipulate a fixed return clause or equivalent clause in their joint venture contract or in any other documents; (viii) a branch or representative office established by a foreign investor in China (other than a FIREE), or a foreign individual working or studying in the PRC for more than one year, is only permitted to purchase commodity residential properties located in the PRC for the purpose of self-residence. Residents of Hong Kong, Macau and Taiwan and overseas Chinese may purchase commodity residential properties of a stipulated floor area based on their living requirements in the PRC for the purpose of self-residence.

On 23 May 2007, MOFCOM and SAFE jointly issued the "Notice of MOFCOM and SAFE on Further Strengthening and Regulating the Approval and Supervision of Foreign Direct Investment in the Real Estate Industry", which established important requirements for approving and supervising foreign investment in the real estate sector. Before applying for the setup of real estate entities with foreign investment, (a) both the land use rights certificates and building ownership certificates must be obtained or, (b) pre-sale or pre-grant contracts for obtaining land use rights or building ownership rights must be entered into.

On 18 June 2008, MOFCOM issued the "Notice on Proper Handling of Archiving Documents for Foreign investment in the Real Estate Industry". According to the notice, the provincial-level departments of commerce are authorised to verify the materials submitted by the foreign invested real estate enterprise for archiving. MOFCOM together with other departments of the State Council shall conduct spot-checks over the above enterprises.

On 22 November 2010, the General Office of the MOFCOM issued the "Notice on Strengthening Administration of the Approval and Filing of Foreign Investment into Real Estate Industry ("**Notice 1542**")". The notice stipulates, among other things, further strengthening the examination of property projects involving foreign investment, supervision of cross-border financing and investment activities and the risks associated with the real estate market.

On 24 June 2014, MOFCOM and SAFE jointly issued the "Notice of the Ministry of Commerce and the State Administration of Foreign Exchange on Improving the Record-Filing of Foreign Investment in Real Estate". According to the notice, MOFCOM shall change the approach of record-filing with materials in hardcopy to the approach of record-filing with electronic data and interim and ex post random inspection.

On 6 November 2015, MOFCOM and SAFE jointly announced the "Notice of the Ministry of Commerce and the State Administration of Foreign Exchange on Further Improving the Record-filing of Foreign Investment in Real Estate". According to the notice, the procedures for record-filing and announcement at MOFCOM's website shall be cancelled. A foreign-invested real estate enterprise may, after completing the aforementioned processes, go through foreign exchange registration and other procedures under foreign direct investment with relevant banks pursuant to applicable provisions on foreign exchange administration.

On 3 September 2016, the National People's Congress Standing Committee (NPCSC) adopted a decision on Amending the Law of Foreign Invested Companies, which became effective from 1 October 2016. Under this decision, the establishment of a foreign invested enterprise and any subsequent changes to such establishment will need to be filed with the relevant authorities instead of obtaining approvals from relevant commerce authorities. This does not affect those foreign invested enterprises which are subject to the special administrative measures regarding foreign investment entry. On 30 September 2016, the State Administration for Industry and Commerce issued a circular on relevant issues of the registration of foreign invested enterprises to implement the decision of NPCSC. On 8 October 2016, NDRC and MOFCOM jointly issued a notice according to which the industries falling within the categories in which foreign investment is prohibited or restricted and those falling within the encouraged category subject to relevant requirements of equity or senior management under the Guidance Catalog, will be subject to the special administrative measures for foreign investment entry. On 30 July 2017, MOFCOM revised the "Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprises". According to existing PRC laws, to establish a foreign-invested property development company, whether in the form of a wholly-foreign owned enterprise, or equity joint venture or co-operative joint venture, one is required to file with the commerce authority instead of obtaining prior approvals, unless such foreign-invested property company involves the implementations of special access administrative measures prescribed by the State.

Under the Catalog of Guidance on Industries for Foreign Investment (2017 version), or the Guidance Catalog, which was jointly promulgated by MOFCOM and NDRC on 28 June 2017 and effective from 28 July 2017, some industries fall within the category of industries in which foreign investment is restricted or prohibited, such as the construction or operation of civil airports, and other real estate development falls within the category of industries in which foreign investment is permitted.

Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 21 July 2005, the PBOC announced that, beginning on 21 July 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. After the closing of the market on each business day, the PBOC will announce the closing price of a foreign currency traded against the Renminbi on the inter-bank foreign exchange market, such as the U.S. dollar, thus setting the central parity for trading of the Renminbi on the following business day.

Foreign exchange income from loans issued by organisations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at designated foreign exchange banks, upon the presentation of valid receipts. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may, with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and requires prior approval from SAFE or its competent branch.

Pursuant to the PRC Regulation of Administration of Foreign Exchange ("**Foreign Exchange Regulation**") promulgated by the State Council on 5 August 2008, domestic entities borrowing loans from offshore lenders, including loans from foreign shareholders ("**External Loans**") shall be approved by or registered with PRC Governmental authorities. According to the Provisional Measures of Administration of External Debts, promulgated by the NDRC, Ministry of Finance and SAFE on 8 January 2003 and effective on 1 March 2003, PRC companies (excluding foreign invested companies) borrowing consistency with capitalisation of long or medium term require approval by the NDRC. Borrowing short-term consistency with capitalisation shall need to be approved by SAFE, and the total amount of such loans shall be limited to the yearly quota imposed by SAFE. Outstanding short-term External Loans shall not be more than such quota at any time. A PRC-incorporated foreign invested enterprise borrowing consistency with capitalisation, is not required to obtain approval from SAFE or other PRC Governmental authorities. However, the amount of External Loans it may borrow is restricted by PRC laws, i.e., the aggregate of the total long or medium term External Loans it has borrowed and the total of outstanding short-term External Loans, shall be limited by the difference between its total investment and registered capital approved by the PRC Governmental authorities. Pursuant to the Foreign Exchange Regulation, each External Loan shall be registered with the local branch of SAFE. Without such registration, the External Loan is not enforceable in the PRC. Any repayment of the principal and interest of any External Loan shall also require approval by the local branch of SAFE.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardisation of all cross-border flows of funds.

On 21 October 2005, SAFE issued the "Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies" which became effective as of 1 November 2005. The notice replaced the two regulations issued by SAFE in January and April 2005 mentioned above. According to the notice, a "special purpose company" ("**SPC**") shall refer to an overseas enterprise that is directly established or indirectly controlled for the purpose of investment and financing by PRC residents (including PRC institutions and resident individuals), with legitimate holdings of assets or interests in PRC enterprises, or legitimate holdings of overseas assets or interests.

Prior to making contributions to a special purpose company with legitimate holdings of domestic or overseas assets or interests, a PRC resident shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. A PRC institution shall go through the foreign exchange registration of overseas investment pursuant to the Notice of the State Administration of Foreign Exchange on Promulgating the "Provisions on Foreign Exchange Administration for Overseas Direct Investment of Domestic Institutions" (Hui Fa [2009] No. 30) and other relevant provisions. A PRC resident may proceed with subsequent business only after going through the foreign exchange registration of overseas investment.

On 1 September 2006, the Ministry of Construction and SAFE promulgated the "Circular on the Issues Concerning the Regulation of Foreign Exchange Administration of the Real Estate Market". This circular states that: (i) where foreign exchange is remitted for a real estate purchase, the foreign purchaser shall be subject to examination by the designated foreign exchange bank. The remitted funds shall be directly remitted by the bank to the RMB account of the real estate development enterprise and no payment remitted from abroad by the purchasers shall be kept in the foreign exchange current account of the real estate development enterprises; (ii) where the real estate purchase fails to be completed and the foreign purchaser intends to exchange the purchase money in RMB back into foreign currencies, the foreign purchaser shall be subject to examination by the designated foreign exchange bank; (iii) when selling real estate in China and the purchase price received in RMB is exchanged into foreign currencies, the foreign purchaser shall be subject to examination by the local branch of SAFE; and (iv) if the registered capital of a FIREE is not fully paid up, its land use right certificate has not been obtained or the paid-in capital is less than 35 per cent. of the total investment amount of the project, the FIREE is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC Government promulgated the "Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186)" (the "**Renminbi Settlement Circular**"), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover 20 provinces including Shandong, and (iii) the restriction on designated offshore districts has been uplifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports and exports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only been effected by approved pilot enterprises in designated pilot districts in the PRC.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside of the PRC is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The PBOC, the central bank of the PRC, has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business between the PBOC and the Renminbi Clearing Bank, Bank of China (Hong Kong) Limited, to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong. There is no longer any limit on the amount corporations may convert to Renminbi, and there will no longer be any restriction on the transfer of Renminbi funds for individual customers between different accounts in Hong Kong. The Renminbi Clearing Bank has been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in June 2010 to cover twenty provinces and cities in the PRC and to make Renminbi trade and other current account item settlement available in all countries worldwide.

On 12 October 2011, the MOFCOM promulgated the "Circular on Issues Concerning Cross-Border Renminbi Direct Investment" (Shang Zi Han 2011 No. 889) ("**MOFCOM Circular**") to further facilitate Renminbi inbound direct investments by foreign investors. which was replaced by the "Announcement of the Ministry of Commerce on Issues relating to Cross-border RMB Direct Investment" issued on 3 December 2013. On 13 October 2011 and 14 June 2012, the PBOC promulgated the "Administrative Measures on Settlement of Cross-Border Renminbi Direct Investment" and its implementing regulations (the "**PBOC Measures**") to set forth rules for settlements of Renminbi inbound direct investments, pursuant to which an overseas investor handling Renminbi settlement business in relation to direct investment may apply to open a Renminbi bank settlement account for the overseas institution in accordance relevant laws or regulations. Prior to the PBOC Measures, cross-border Renminbi settlement for Renminbi foreign direct investments required approvals from PBOC on a case-by-case basis. The new rules replace the PBOC approval requirement with a less onerous post-event registration and filing requirement. Under the new rules, foreign-invested enterprises (whether established or acquired by foreign investors) need to (i) register their corporate information after the completion of a RMB foreign direct investments transaction and (ii) make post-event registration or filing with PBOC of any changes in registration information or in the event of an increase or decrease of registered capital, equity transfer or replacement, merger or acquisition.

On 30 March 2015, SAFE issued the "Notice on the Reform of the Administration of Foreign Exchange Registered Capital Settlement for Foreign-Invested Enterprises" effective from 1 June 2015, under which a reform on the administration of foreign exchange capital settlement for foreign-invested enterprises is carried out in China and foreign-invested enterprises may make equity investments within China by utilising the Renminbi funds converted from their foreign exchange registered capital. Besides the remittance of equity transfer payments in the original foreign currency, foreign-invested enterprises mainly engaged in investment activities (including foreign investment companies, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) are permitted to directly convert foreign capital funds into Renminbi funds or transfer the Renminbi funds converted from the foreign capital account to the bank account of the investee enterprise based on the actual investment scale on the premise that the domestic investment projects are authentic and in compliance. Equity investments within China remitted through equity transfer payments in the original foreign currency by general foreign-invested enterprises other than the above enterprises shall be governed by the current domestic reinvestment laws and regulations. If such foreign-invested enterprises make equity investments in China by using converted Renminbi funds, the investee enterprise shall first register this domestic reinvestment activity with the administration of the foreign exchange (bank) of its place of incorporation and open a corresponding Renminbi account for depositing the converted Renminbi funds. The foreign-invested enterprises shall then transfer the converted RMB funds into the Renminbi account of the investee enterprise based on the actual investment scale. If the investee enterprise continues to make equity investments in China, the above principles shall apply. On 9 June 2016, SAFE issued the "Notice to Reform and Regulate the Administration Policies of Foreign Exchange Capital Settlement" to further reform foreign exchange capital settlement nationwide.

Taxation in China

Income Tax

The EIT Law and the implementation regulations for the EIT Law issued by the PRC State Council became effective as of 1 January 2008. The EIT Law imposes a uniform income tax rate of 25 per cent. on both domestic and foreign-invested PRC enterprises. The EIT Law further provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25 per cent. enterprise income tax rate of their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, a "de facto management body" is defined as a body that has material managerial control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Currently, no guidance or interpretation with respect to the new EIT Law and its implementation rules is available for entities that are not controlled by Chinese enterprises or group enterprises.

Under the EIT Law a 10 per cent. income tax is withheld from PRC-source dividends or interest payable to investors that are "non-resident enterprises," that do not have a place of business in the PRC, or that have a place of business in the PRC but the relevant income is not effectively connected with the place of business. Any gain realised on the transfer of shares or debt securities of a PRC resident enterprise by such investors is subject to 10 per cent. PRC income tax if such gain is regarded as income derived from sources within the PRC. However, under the EIT Law and the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, ("**Double Taxation Arrangement**") that became effective on 1 January 2007, dividends from PRC subsidiaries paid to a Hong Kong subsidiary which holds 25 per cent. or greater interest in that particular PRC subsidiary at the time of the distribution, may be subject to a withholding tax at a rate of 5 per cent. to the extent approved by competent PRC tax authorities.

According to the "Notice of the State Administration of Taxation on the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises" issued by SAT on 11 April 2008 and effective on 1 January 2008, where a real estate development enterprise prepays the corporate income tax by quarter (or by month) according to the current actual profit, for the income generated from the advance sale prior to the completion of such development products, the tax prepayment thereof shall be paid by calculating the estimated profit and incorporated into the total profit, and it shall be readjusted according to the actual profit after the development products are completed and the tax costs are settled.

On 6 March 2009, SAT issued the "Notice on the Measure Dealing with Income Tax of Enterprise Engaged in Real Estate Development" effective on 1 January 2008, which specifically stipulates the rules regarding tax treatment of income, tax treatment of cost deduction, verification of calculated tax cost and tax treatment of certain items with respect to the real estate development enterprise according to the EIT Law and the implementation regulations for the EIT Law.

Business Tax

Business tax is payable in respect of certain business activities in China as set out in the Provisional Regulations Concerning Business Tax. The activities to which the business tax applies include construction, leases and sales of real estate properties in China. The tax is a turnover tax charged on gross revenue. No deduction of the tax incurred on purchased services or materials is allowed. However, deductions from gross revenue are allowed for subcontracting fees paid among the transportation, tourism and construction industries. The rate of business tax payable for property sale and leasing transactions is 5 per cent. of the proceeds from the sale or leasing of real estate/immovable properties in China.

On 27 May 2005, the State Administration of Taxation, the Ministry of Finance and the Ministry of Construction jointly issued a "Notice on Strengthening the Administration of Taxes in connection with Real Estate". According to the notice, from 1 June 2005, a business tax shall be imposed on the full amount of the sale income, upon the transfer of a residential house by an individual within two years from the purchase date. In the case of a house other than an ordinary residential house, business tax shall be imposed on the difference between the sale income and the purchase price, provided that the transfer occurs after two years from the purchase date. The interest accrued upon the External Loans payable by PRC borrowers to foreign lenders is subject to PRC business tax. The borrower needs to present evidence of its payment of business tax to the local branch of the SAFE for approval of the repayment of the interest and principal of any External Loans.

On 23 March 2016, the Ministry of Finance and SAT promulgated the "Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner". Pursuant to the notice, with the approval of the State Council, as of 1 May 2016, the pilot program for replacing business tax with Value-Added Tax ("**VAT**") shall be implemented across the country, all business tax taxpayers in the construction industry, the real estate industry, the financial industry, and the living service industry shall be included in the scope of the pilot program, and the payment of business tax shall be replaced by the payment of VAT. Where a taxpayer provides transportation, postal services, basic telecommunications, construction or immovable property leasing services, sells any immovable property, or transfers the right to use land, the tax rate shall be 11 per cent.

On 31 March 2016, the SAT promulgated the "Provisional Measures on Administration of Levying and Collection of Value-added Tax on Sale of Real Estate Projects by Real Estate Development Enterprises Which Develop Such Projects" pursuant to the "Notice of the Ministry of Finance and the State Administration of Taxation on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax", and the relevant prevailing VAT provisions. Such measures are applicable to real estate development enterprises which sell the self-developed real estate projects.

On 30 April 2016, the Ministry of Finance and SAT promulgated the Notice of the Ministry of Finance and the State Administration of Taxation on Further Clarifying Labor Dispatch Services, Toll Road Tolls and Other Policies related to the Comprehensive Promotion of the Pilot Program of Replacing Business Tax with Value-Added Tax, pursuant to which a simple tax method can be chosen on the condition that the taxpayer transfers the land use rights acquired before 30 April 2016, and the tax rate shall be 5 per cent.

Land Appreciation Tax

Land appreciation tax is applicable to entities or individuals upon the transfer of land use rights and its attachments where a gain is generated. This tax is calculated based on the appreciated value of the real estate property. The applicable marginal tax rate progresses from 30 per cent. to 60 per cent. based on the ratio of the appreciated value as compared to the original cost. A full exemption is available for individual owners that assign their personal residence of five years or more. For personal residences of more than three years but less than five years, a 50 per cent. reduction of the land appreciation tax is available.

For property developers, an additional 20 per cent. of deductible expenses may be further deducted in the calculation of the land appreciation amount. Deductible expenses include the land use right costs incurred and other costs associated with acquiring such right and costs associated with property development, such as removal fees, construction costs, basic infrastructure costs, and indirect development costs, as well as sales expenses, management expenses and finance expenses. Land appreciation tax is assessed at completion of the property transfer. Net profit is assessed after the completion of each phase to derive the tax liability.

On 2 March 2006, the Ministry of Finance and SAT issued the "Notice on Several Points on Land Appreciation Tax" to clarify certain issues regarding LAT. The notice sets out the standards for ordinary standard residential houses. Where any developers build ordinary residential houses as well as other commercial houses, the appreciation amount of land shall be verified, respectively. As to any property project that has been completed and has gone through the acceptance procedure, where the floor area of the property as transferred makes up more than 85 per cent. of the saleable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of LAT on the transferred property according to the matching principles regarding the proportion between the income as generated from the transfer of property and the amount under the item of deduction. On 28 December 2006, SAT issued the "Notice of the State Administration of Taxation on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises," which came into effect on 1 February 2007. Pursuant to the notice, a property developer must settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT must be settled for projects approved by the competent authorities. For projects developed in different stages, the LAT must be settled in stages.

On 19 May 2010, SAT issued the "Circular on Settlement of Land Appreciation Tax" to strengthen the settlement of the land appreciation tax. The circular clarifies certain issues with respect to calculation and settlement of the land appreciation tax, such as (i) the recognition of the revenue upon the settlement of the land appreciation tax, and (ii) the deduction of fees incurred in connection with the property development. On 25 May 2010, SAT issued the "Notice on Strengthening the Collection Land Appreciation Tax," which provides that the minimum LAT prepayment rate shall be 2 per cent. for provinces in the eastern region, 1.5 per cent. for provinces in the central and northeastern regions, and 1 per cent. for provinces in the western region. According to the notice, the local tax bureaus shall determine the applicable LAT prepayment rates based on the types of the properties.

Property Tax

Property owners in China are required to pay property tax on real property owned by them in urban areas in China. The tax is charged at a rate of 1.2 per cent. based on the original value of the property discounted by 10 per cent. to 30 per cent. If no original value is available, the tax chargeable is determined by the relevant local tax authorities with reference to the value of other properties of a similar nature, and the tax rate is 12 per cent. if it is calculated on the basis of the rental.

Urban land use tax

Pursuant to the Provisional Regulations of the PRC Governing Land Use Tax in Cities and Towns enacted by the State Council on 27 September 1988 and revised on 7 December 2013, the land use tax in respect of urban land is levied according to the area of the relevant land. The annual tax as of 1 January 2007 shall be between RMB0.6 and RMB30.0 per square meter of urban land, calculated according to the tax rate determined by local tax authorities.

Stamp Duty

Persons who have executed or received dutiable documents within China are subject to stamp tax. Dutiable documents include contracts or documents of a contractual nature for the sale of goods, the undertaking of processing work, the contracting of construction and engineering projects, the lease of property and technology, as well as the transfer of property. A stamp tax by each party to the stampable documents at the rate of 0.05 per cent. is payable in respect of transfer of properties based on the contractual price of the property transferred and at the rate of 0.1 per cent. of the total amount of rent in respect of the leasing of properties.

Deed Tax

Pursuant to the "Interim Regulations of the People's Republic of China on Deed Tax" promulgated by the State Council on 7 July 1997 and implemented on 1 October 1997, the transferee, whether an individual or otherwise, of the title to a land site or a building in the PRC will be the obliged taxpayer for deed tax. The rate of deed tax ranges from 3 per cent. to 5 per cent. The governments of provinces, autonomous regions and municipalities directly under the central government may determine and report their effective tax rates, within the aforesaid range, to the Ministry of Finance and SAT for the record.

Municipal Maintenance Tax and Education Surcharge

On 18 October 2010, the State Council released a circular entitled "Notice Issued by The State Council to Unify the Collection of Municipal Maintenance Tax and Education Surcharges on Domestic and Foreign-Invested Enterprises and Individuals" to resume the collection of surtaxes from foreign invested enterprises and foreign enterprises, effective from 1 December 2010. Similar to the rate applicable to the domestic enterprises, the applicable municipal maintenance tax rate for foreign invested enterprises and foreign enterprises is 7 per cent. for a taxpayer whose domicile is in an urban area, 5 per cent. for a taxpayer whose domicile is in a county or a town, and 1 per cent. for a taxpayer whose domicile is not in any urban area or county or town. The unified applicable education surcharge rate for foreign invested enterprises and foreign enterprises is 3 per cent.

TAXATION

The following summary of certain tax consequences relating to the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

BVI

Under existing BVI law:

(i) The Issuer is not liable to pay any form of taxation in the BVI and all payments of interest and principal on the Notes and other amounts made by the Issuer to persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI and any capital gains realised with respect to the disposal of the Notes by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI.

(ii) No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligation (including the Notes) or other securities of the Issuer.

(iii) Subject to the payment of stamp duty on the acquisition of property in the BVI by the Issuer, all instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations (including the Notes) or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from payment of stamp duty in the BVI.

(iv) There are currently no withholding taxes or exchange control regulations in the BVI applicable to the Issuer or its shareholders.

The Cayman Islands

Under existing Cayman Islands laws:

Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Notes.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest in respect of the Notes.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of the Notes.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, Oversea-Chinese Banking Corporation Limited and UBS AG Hong Kong Branch as the Joint Bookrunners and Joint Lead Managers dated [•••] 2018 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Joint Bookrunners and Joint Lead Managers, and the Joint Bookrunners and Joint Lead Managers have severally agreed to procure subscribers to subscribe and pay for, or failing which, subscribe and pay for, the aggregate principal amount of the Notes set forth below:

	Principal amount of Notes
	(US dollars)
DBS Bank Ltd.	[•••]
The Hongkong and Shanghai Banking Corporation Limited	[•••]
Oversea-Chinese Banking Corporation Limited	[•••]
UBS AG Hong Kong Branch	[•••]
Total	[•••]

In connection with the Offering of the Notes, each Joint Bookrunners and Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references herein to the Notes being offered should be read as including any Offering of the Notes to the Joint Bookrunners and Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the offering of the Notes, the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) may effect transactions that stabilise or maintain the market price of the Notes at a higher level than the Notes might otherwise achieve in the open market. However, there is no obligation on the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) to effect such stabilising transactions, and such stabilising, if commenced, may be discontinued at any time.

The Subscription Agreement provides that the obligations of the Joint Bookrunners and Joint Lead Managers are subject to certain conditions precedent, and that the Joint Bookrunners and Joint Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to the payment of the net proceeds of the issue of the Notes to the Issuer on the Closing Date. The Issuer has agreed to pay the Joint Bookrunners and Joint Lead Managers certain fees and underwriting commissions, to reimburse the Joint Bookrunners and Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Securities, and to indemnify the Joint Bookrunners and Joint Lead Managers against certain liabilities in connection with the offering and sale of the Securities. The Issuer has also agreed to pay the Joint Bookrunners and Joint Lead Managers a further fee based on the principal amount of the Notes offered and sold.

The Issuer and the Guarantor have agreed with the Joint Bookrunners and Joint Lead Managers that the Issuer (failing which, the Guarantor) will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Bookrunners and Joint Lead Managers or any affiliate of the Joint Bookrunners and Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Bookrunner and Joint Lead Manager or its affiliate on behalf of the Issuer, the Guarantor and the Company in such jurisdiction.

Other Relationships

Each Joint Bookrunner and Joint Lead Manager or its affiliates may purchase the Notes for its own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Notes at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Each of the Joint Bookrunners and Joint Lead Managers and its affiliates has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective subsidiaries, jointly controlled entities or associated companies from time to time. Each Joint Bookrunner and Joint Lead Manager or certain of its affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. In addition to the transactions noted above, each Joint Bookrunner and Joint Lead Manager and its affiliates may, from time to time, engage in other transactions with, and perform services for, the Issuer or the Guarantor or their respective subsidiaries, jointly controlled entities or associated companies in the ordinary course of their business. In addition, each Joint Bookrunner and Joint Lead Manager and certain of its subsidiaries and affiliates may hold shares or other securities in the Issuer as beneficial owner, on behalf of clients or in the capacity of investment adviser.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor, the Company or the Joint Bookrunners and Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular, any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, by the Issuer, the Guarantor, the Company or the Joint Bookrunners and Joint Lead Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer, the Guarantor, the Company or the Joint Bookrunners and Joint Lead Managers.

United States

The Notes and the Guarantee of the Notes have not been and will not be registered under the Securities Act and may not be offered, marketed, sold or delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each Joint Bookrunner and Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Bookrunner and Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

    (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"); and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

United Kingdom

Each Joint Bookrunner and Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Bookrunner and Joint Lead Manager has represented and agreed that: (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the SFO and any rules made under the Securities and Futures Ordinance (Cap.571) of Hong Kong) (the "**SFO**"); or (b) in other circumstances which do not result in the document being a "prospectus " as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors " as defined in the SFO and any rules made under the SFO.

PRC

Each Joint Bookrunner and Joint Lead Manager has represented, warranted and undertaken that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

Singapore

Each Joint Bookrunner and Joint Lead Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Bookrunner and Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to

Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

    (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

    (2) where no consideration is or will be given for the transfer;

    (3) where the transfer is by operation of law;

    (4) as specified in Section 276(7) of the SFA; or

    (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, or Financial Instruments and Exchange Act, and, accordingly, each Joint Bookrunner and Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption form the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

BVI

Each Joint Bookrunner and Joint Lead Manager represents, warrants and undertakes that the Notes may not be offered to members of the public in the BVI.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes or the offering constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the offering, the Issuer, the Guarantor, the Company or the Notes have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Circular will not be filed with, and the offer of the Notes will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA, and the offer of the Notes has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the Notes.

Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (investitori qualificati), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**");

(b) in compliance with Article 129 of the Banking Act, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

1. **Clearing Systems:** The Notes have been accepted for clearance through Euroclear and Clearstream. The securities codes for the Notes are as follows:

Common Code:	174753946
ISIN:	XS1747539465

2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under the Notes, the Agency Agreement and the Deed of Covenant. The issue of the Notes was authorised by resolutions of the board of directors of the Issuer passed on [•••] 2018. The Guarantor has obtained all consents, approvals and authorisations in connection with the giving of the Guarantee of the Notes and the performance of its obligations under the Guarantee of the Notes and the Agency Agreement. The giving of the Guarantee of the Notes was authorised by resolutions of the Guarantor passed on [•••]. The Company has obtained all necessary consents, approvals and authorisations in connection with the giving of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking and the performance of its obligations under the Agency Agreement the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking. The giving of the Keepwell Deed and the Deed of Equity Interest Purchase Undertaking was authorised by resolutions of the Company passed on [•••] 2018.

3. **Listing of the Notes:** Application will be made to the SEHK for the listing of, and permission to deal in, the Notes issued to Professional Investors only. It is expected that dealing in, and listing of, the Notes on the SEHK will commence on or about [•••] 2018.

4. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the financial or trading position, condition (financial or otherwise), general affairs or prospects of the Issuer, the Guarantor, the Company or the Group since 31 July 2017.

   Except as disclosed in this Offering Circular, there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the financial or trading position, condition (financial or otherwise), general affairs or prospects of the Issuer since the date of its incorporation.

5. **Litigation:** Neither the Issuer, the Guarantor, the Company, nor any member of the Group is involved in any litigation or arbitration proceedings which are material in the context of the issue of the Notes nor, so far as the Issuer, the Guarantor or the Company is aware, is any such litigation or arbitration pending or threatened.

6. **Available Documents:** Copies of the latest annual report and consolidated financial statements of the Guarantor may be obtained free of charge, and copies of the Agency Agreement, which includes the form of the Global Note Certificate, the Keepwell Deed, the Deed of Equity Interest Purchase Undertaking, the Deed of Covenant and the Deed of Guarantee, will be available for inspection, at the specified office of the Guarantor at 19th Floor, AIA Central, 1 Connaught Road Central, Central, Hong Kong during normal business hours, so long as any of the Notes are outstanding. The Guarantor publishes unaudited consolidated interim financial information every year for the six months ended 31 January.

7. **Auditor:** The consolidated financial statements of the Guarantor for the two years ended 31 July 2016 and 2017, and of the Company for the two years ended 31 July 2016 and 2017 have been audited by Ernst & Young, Certified Public Accountants.

8. **Issuer's Financial Statements:** Under BVI law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any of its financial statements. The Issuer is, however, required to keep proper books of account as are sufficient to show and to explain its transactions and which will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

INDEX TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS OF THE GUARANTOR AS AT AND FOR THE YEAR ENDED 31 JULY 2017

AUDITED FINANCIAL STATEMENTS OF THE GUARANTOR AS AT AND FOR THE YEAR ENDED 31 JULY 2016

The Independent Auditors' Report and financial information for the years ended 31 July 2016 and 31 July 2017 set out herein were reproduced from the Guarantor's annual report for the respective years, and page references included herein refer to pages set out in such annual reports.

AUDITED FINANCIAL STATEMENTS OF THE COMPANY AS AT AND FOR THE YEAR ENDED 31 JULY 2017

AUDITED FINANCIAL STATEMENTS OF THE COMPANY AS AT AND FOR THE YEAR ENDED 31 JULY 2016

The Independent Auditors' Report and financial information for the years ended 31 July 2016 and 31 July 2017 set out herein were reproduced from the Company's annual report for the respective years, and page references included herein refer to pages set out in such annual reports.

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Lai Fung Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 95 to 190, which comprise the consolidated statement of financial position as at 31 July 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 July 2017, and of its consolidated financial performance and, its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis For Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs ") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimation of fair value of investment properties	
The Group's investment properties measured at fair value amounted to HK$15.5 billion as at 31 July 2017. Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period. The related disclosures for the estimation of fair value of investment properties are included in note 15 to the consolidated financial statements.	We evaluated the objectivity, independence and competency of the valuer. We involved our internal valuation specialists to assist us to evaluate the valuation techniques used. We also tested the underlying key estimations and assumptions for selected samples through enquiry with management and by reference to the historical information and open market information.
Land appreciation tax in Mainland China	
The Group is subject to land appreciation tax ("**LAT**") in respect of the Group's property development projects in Mainland China. The Group has not finalised its LAT calculation and payments with the tax authorities for certain of its property development projects. Significant management judgement and estimations are required in determining the LAT provision for these projects. Changes in assumptions about the decisions that might be taken by the relevant tax authorities can materially impact the level of LAT provisions recorded in the financial statements. The final outcome could be different from the amounts that were initially recorded. The related disclosures in relation to LAT are included in note 10 to the consolidated financial statements.	We involved our internal tax specialists to assist us in the assessment of the LAT calculation prepared by management, including analysing and evaluating the estimates and assumptions used by management as well as the adequacy and completeness of the LAT provision.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments	
The Group's derivative financial instruments, which are the cross currency swap agreements, are accounted for as financial liabilities and measured at fair value with a carrying amount of HK$208 million as at 31 July 2017. These derivative financial instruments, which had significant unobservable inputs in the valuation and were categorised within Level 3 of the fair value hierarchy, involved a high degree of uncertainty in their valuation. Subjective judgements and assumptions are required by management to determine the fair value of derivative financial instruments. With different valuation techniques and assumptions applied, the valuation results can vary significantly. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations of the derivative financial instruments at the end of the reporting period. The related disclosures for the valuation of derivative financial instruments are included in note 24 to the consolidated financial statements.	We evaluated the objectivity, independence and competency of the valuer. We also involved our internal valuation specialists to assist us in evaluating the valuation techniques, inputs and assumptions. The procedures included a comparison with the valuation techniques that are commonly used in the market, the validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.

Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lee Mee Kwan, Helena.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

19 October 2017

Consolidated Income Statement

Year ended 31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
TURNOVER	5	**1,326,682**	2,043,530
Cost of sales		**(662,438)**	(954,724)
Gross profit		**664,244**	1,088,806
Other income and gains	5	**151,596**	133,476
Selling and marketing expenses		**(93,629)**	(61,498)
Administrative expenses		**(300,597)**	(289,680)
Other operating expenses, net		**(124,050)**	(124,930)
Fair value gains on cross currency swaps	24	**111,657**	—
Fair value gains on investment properties	15	**800,104**	528,015
PROFIT FROM OPERATING ACTIVITIES	7	**1,209,325**	1,274,189
Finance costs	6	**(166,083)**	(156,356)
Share of profits of joint ventures		**609,562**	167,752
PROFIT BEFORE TAX AND TAX INDEMNITY		**1,652,804**	1,285,585
Tax	10	**(556,156)**	(388,163)
Tax indemnity	10	**493,936**	—
PROFIT FOR THE YEAR		**1,590,584**	897,422
ATTRIBUTABLE TO:			
Owners of the Company		**1,477,452**	873,527
Non-controlling interests		**113,132**	23,895
		1,590,584	897,422
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY:	12		(Adjusted)
Basic		**HK$4.547**	HK$2.702
Diluted		**HK$4.542**	HK$2.702

Consolidated Statement of Comprehensive Income

Year ended 31 July 2017

	Note	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR		**1,590,584**	897,422
OTHER COMPREHENSIVE INCOME/(EXPENSES) TO BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT PERIODS, NET OF TAX			
Exchange differences arising on translation to presentation currency		**(134,482)**	(987,871)
Share of other comprehensive income/(expenses) of joint ventures		**2,934**	(52,223)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	24	**(101,887)**	(88,697)
Reclassification adjustments for exchange gain included in the consolidated income statement		**69,653**	135,756
		(32,234)	47,059
		(163,782)	(993,035)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR		**1,426,802**	(95,613)
ATTRIBUTABLE TO:			
Owners of the Company		**1,314,396**	(98,997)
Non-controlling interests		**112,406**	3,384
		1,426,802	(95,613)

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Consolidated Statement of Financial Position

31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,703,731**	1,450,871
Prepaid land lease payments	16	**4,397**	4,623
Investment properties	15	**16,457,221**	14,661,728
Properties under development	14	**1,341,974**	1,184,375
Investments in joint ventures	18	**1,387,570**	804,431
Investments in associates	19	**343**	—
Deposit for acquisition of an investment property	17	**—**	228,620
Total non-current assets		**20,895,236**	18,334,648
CURRENT ASSETS			
Properties under development	14	**213,818**	791,844
Completed properties for sale		**904,811**	503,187
Debtors, deposits and prepayments	20	**256,671**	367,068
Prepaid tax		**42,844**	32,575
Pledged and restricted time deposits and bank balances	21	**571,022**	1,066,374
Cash and cash equivalents	21	**2,057,346**	2,546,240
		4,046,512	5,307,288
Asset classified as held for sale	22	**278,531**	257,666
Total current assets		**4,325,043**	5,564,954
CURRENT LIABILITIES			
Creditors and accruals	23	**957,047**	797,512
Deposits received and deferred income		**245,024**	596,367
Interest-bearing bank loans, secured	25	**82,031**	287,548
Fixed rate senior notes	28	**2,080,366**	—
Derivative financial instruments	24	**208,223**	—
Loans from a joint venture	18	**192,731**	350,328
Tax payable		**104,958**	399,326
Total current liabilities		**3,870,380**	2,431,081
NET CURRENT ASSETS		**454,663**	3,133,873
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,349,899**	21,468,521

Consolidated Statement of Financial Position

31 July 2017

	Notes	**2017 HK$'000**	2016 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,349,899**	21,468,521
NON-CURRENT LIABILITIES			
Long-term deposits received		**140,240**	124,389
Interest-bearing bank loans, secured	25	**2,814,062**	2,747,970
Advances from a former substantial shareholder	26	**54,143**	54,675
Loans from a fellow subsidiary	27	**218,279**	221,714
Loans from a joint venture	18	**649,779**	222,430
Fixed rate senior notes	28	**—**	2,092,741
Derivative financial instruments	24	**—**	210,068
Deferred tax liabilities	29	**2,704,032**	2,406,920
Total non-current liabilities		**6,580,535**	8,080,907
		14,769,364	13,387,614
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**1,628,509**	1,619,770
Reserves	32	**12,955,602**	11,694,997
		14,584,111	13,314,767
Non-controlling interests		**185,253**	72,847
		14,769,364	13,387,614

Chew Fook Aun
Director

Lam Hau Yin, Lester
Director

Consolidated Statement of Changes in Equity

Year ended 31 July 2017

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK'000	Share option reserve HK$'000	Hedge reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
1 August 2015		1,612,968	4,068,087	68,959	29,594	(6,656)	1,846,681	144,498	229,587	5,472,635	13,466,353	78,875	13,545,228
Profit for the year		—	—	—	—	—	—	—	—	873,527	873,527	23,895	897,422
Other comprehensive income/(expenses) for the year, net of tax:													
Exchange differences arising on translation to presentation currency		—	—	—	—	—	(967,360)	—	—	—	(967,360)	(20,511)	(987,871)
Share of other comprehensive expenses of joint ventures		—	—	—	—	—	(52,223)	—	—	—	(52,223)	—	(52,223)
Net gain on cash flow hedges	24	—	—	—	—	47,059	—	—	—	—	47,059	—	47,059
Total comprehensive income/(expenses) for the year, net of tax		—	—	—	—	47,059	(1,019,583)	—	—	873,527	(98,997)	3,384	(95,613)
Acquisition of additional interests in subsidiaries from non-controlling shareholders	33	—	—	—	—	—	—	(7,333)	—	—	(7,333)	(9,412)	(16,745)
Release of reserve upon lapse of share options		—	—	—	(170)	—	—	—	—	170	—	—	—
Share of statutory reserve of joint ventures		—	—	—	—	—	—	—	11,810	(11,810)	—	—	—
Shares issued in lieu of cash dividend	30	6,802	1,170	—	—	—	—	—	—	—	7,972	—	7,972
Final 2015 dividend paid		—	—	—	—	—	—	—	—	(53,228)	(53,228)	—	(53,228)
As at 31 July 2016 and 1 August 2016		1,619,770	4,069,257*	68,959*	29,424*	40,403*	827,098*	137,165*	241,397*	6,281,294*	13,314,767	72,847	13,387,614
Profit for the year		—	—	—	—	—	—	—	—	1,477,452	1,477,452	113,132	1,590,584
Other comprehensive income/(expenses) for the year, net of tax:													
Exchange differences arising on translation to presentation currency		—	—	—	—	—	(133,756)	—	—	—	(133,756)	(726)	(134,482)
Share of other comprehensive income of joint ventures		—	—	—	—	—	2,934	—	—	—	2,934	—	2,934
Net loss on cash flow hedges	24	—	—	—	—	(32,234)	—	—	—	—	(32,234)	—	(32,234)
Total comprehensive income/(expenses) for the year, net of tax		—	—	—	—	(32,234)	(130,822)	—	—	1,477,452	1,314,396	112,406	1,426,802
Issue of shares upon exercise of share options	30	3,000	2,361	—	(1,371)	—	—	—	—	—	3,990	—	3,990
Release of reserve upon lapse of share options		—	—	—	(170)	—	—	—	—	170	—	—	—
Transfer from asset revaluation reserve		—	—	(68,959)	—	—	—	—	—	68,959	—	—	—
Transfer to statutory reserve		—	—	—	—	—	—	—	28,208	(28,208)	—	—	—
Share of statutory reserve of joint ventures		—	—	—	—	—	—	—	59,300	(59,300)	—	—	—
Shares issued in lieu of cash dividend	30	5,739	3,639	—	—	—	—	—	—	—	9,378	—	9,378
Final 2016 dividend paid		—	—	—	—	—	—	—	—	(58,420)	(58,420)	—	(58,420)
As at 31 July 2017		**1,628,509**	**4,075,257***	**—***	**27,883***	**8,169***	**696,276***	**137,165***	**328,905***	**7,681,947***	**14,584,111**	**185,253**	**14,769,364**

* *These reserve accounts comprise the consolidated reserves of HK$12,955,602,000 (2016: HK$11,694,997,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax and tax indemnity		**1,652,804**	1,285,585
Adjustments for:			
Fair value gains on investment properties	15	**(800,104)**	(528,015)
Finance costs	6	**166,083**	156,356
Share of profits of joint ventures		**(609,562)**	(167,752)
Interest income	5	**(22,595)**	(15,339)
Depreciation	7	**72,226**	71,201
Amortisation of prepaid land lease payments	7	**178**	186
Foreign exchange differences, net	7	**58,715**	24,513
Loss on return of land use right to the local authority	7	**—**	19,929
Loss on disposal of items of property, plant and equipment	7	**242**	99
Fair value gains on cross currency swaps	24	**(111,657)**	—
Ineffective portion of the effective hedge recognised in profit or loss	7	**7,925**	9,717
Write-down/(reversal of write-down) of completed properties for sale to net realisable value	7	**(3,829)**	3,485
		410,426	859,965
Decrease in completed properties for sale		**558,930**	736,590
Increase in properties under development		**(488,333)**	(361,549)
Decrease/(increase) in debtors, deposits and prepayments		**110,397**	(47,942)
Additions to asset classified as held for sale		**(23,374)**	(8,299)
Increase/(decrease) in creditors and accruals, and short term deposits received and deferred income		**(349,418)**	380,860
Increase in long term deposits received		**15,851**	21,020
Proceeds from return of land use right to the local authority		**—**	247,149
Cash generated from operations		**234,479**	1,827,794
Tax indemnity received	10	**493,936**	—
Mainland China taxes paid, net		**(531,455)**	(156,708)
Net cash flow from operating activities		**196,960**	1,671,086
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**22,595**	15,339
Purchases of items of property, plant and equipment		**(258,799)**	(70,539)
Additions to investment properties		**(662,882)**	(476,187)
Repayment/(advances) of loans to a joint venture		**(60)**	50,031
Investment in associates		**(283)**	—
Advances of loans to associates		**(60)**	—
Decrease in pledged and restricted time deposits and bank balances		**485,327**	165,675
Increase in deposit for acquisition of an investment property		**—**	(228,620)
Net cash flow used in investing activities		**(414,162)**	(544,301)

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**3,990**	—
New bank loans, net of direct costs		**483,638**	3,465,194
Repayment of bank loans		**(640,585)**	(3,407,252)
Loans from a fellow subsidiary		**27,888**	62,051
Repayment of loans from a fellow subsidiary		**(29,000)**	(56,000)
Loans from a joint venture		**609,490**	222,430
Repayment of loans from a joint venture		**(342,143)**	—
Interest and bank financing charges paid		**(318,056)**	(289,995)
Dividend paid	11	**(49,042)**	(45,256)
Acquisition of non-controlling interests	33	**—**	(16,745)
Net cash flow used in financing activities		**(253,820)**	(65,573)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(471,022)**	1,061,212
Cash and cash equivalents at beginning of year		**2,546,240**	1,571,281
Effect of foreign exchange rate changes, net		**(17,872)**	(86,253)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,057,346**	2,546,240
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged and non-restricted cash and bank balances	21	**1,776,001**	1,729,110
Non-pledged and non-restricted time deposits	21	**281,345**	817,130
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**2,057,346**	2,546,240

Notes to Financial Statements

31 July 2017

1. Corporate and Group Information

Lai Fung Holdings Limited (the "**Company**") 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 Company and its subsidiaries (collectively referred to as the "**Group**") consisted of property development for sale, property investment for rental purposes, and development and operation of and investment in cultural, leisure, entertainment and related facilities.

Details of the principal subsidiaries are set out in note 43 to the financial statements.

In the opinion of the directors, the holding company and ultimate holding company of the Company is eSun Holdings Limited ("**eSun**"), which was incorporated in Bermuda and is listed in Hong Kong.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, 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 completed investment properties, certain investment properties under construction and derivative financial instruments, which have been measured at fair value. Non-current asset classified as held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. 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 31 July 2017. A subsidiary is an entity (including a structural entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

Profit or loss and each component of comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised standards for the first time for the current year's financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*

The adoption of the above new and revised standards has had no significant financial effect on the financial statements.

2.3 Issued But Not Yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKAS 7	*Disclosure Initiative*[1]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
HK(IFRIC) Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
Amendments to HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[2]
HK(IFRIC) Interpretation 23	*Uncertainty over Income Tax Treatments*[3]
Amendments to HKFRS 1 included in Annual improvements 2014-2016 Cycle	*First-time Adoption of Hong Kong Financial Reporting Standards*[2]
Amendments to HKAS 28 included in Annual improvements 2014-2016 Cycle	*Investments in Associates and Joint Ventures*[2]
Amendments HKFRS 12 included in Annual improvements 2014-2016 Cycle	*Disclosure of Interests in Other Entities*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position 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. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill

Business combinations from 1 August 2009

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 July. 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.

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

Business combinations and goodwill (continued)

Business combinations from 1 August 2009 (continued)

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 August 2009 but after 1 August 2004

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 August 2009:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities might be different at the date of each exchange transaction. Any adjustment to those fair values relating to previously held interests of the Group was a revaluation and was dealt with in the asset revaluation reserve initially and shall be accounted for as such. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement

The Group measures its completed investment properties, certain investment properties under construction and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than completed properties for sale, properties under development, asset classified as held for sale, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, but 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 an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment including owner-operated serviced apartments, other than investment properties, properties under development and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Property, plant and equipment and depreciation (continued)

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised 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.

Construction in progress represents a building under construction or equipment under installation or testing, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or equipment and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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. These include land held for a currently undetermined future use and properties which are constructed for future use as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions as at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period 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 period of the retirement or disposal.

2.4 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

Properties under construction for future use as investment properties are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction. Investment properties under construction are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment properties under construction and their carrying amounts is recognised in the income statement in the period in which it arises.

If the fair value of an investment property under construction is at present not reliably determinable but is expected to be reliably determinable when construction is completed, such investment property under construction is stated at cost until either its fair value becomes reliably determinable or construction is completed, whichever is earlier.

A transfer from investment property under construction to property under development/construction in progress shall be made when, and only when, there is a change in use, evidenced by commencement of development with a view to sale/owner-occupation.

Properties under development

Properties under development represent properties being developed for sale and are stated at lower of cost and net realisable value. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the development of these properties is completed, these properties are transferred to completed properties for sale.

If a property under development is intended to be redeveloped into an owner-occupied property, it is transferred to construction in progress at carrying amount.

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 less costs to be incurred in selling the property.

If an item of completed property for sale becomes owner-occupied, it is transferred to property, plant and equipment at carrying amount.

For a transfer from an item of completed property for sale to investment property that will be carried at fair value as its use has changed as evidenced by commencement of an operating lease, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

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 operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interests earned on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement as other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to the income statement in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified 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). The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include creditors and accruals, loans from a joint venture, deposits received, interest-bearing bank loans, advances from a former substantial shareholder, loans from a fellow subsidiary, fixed rate senior notes and derivative financial instruments.

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (a) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (b) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as cross currency swaps, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedged item affects the income statement.

For the purpose of hedge accounting, hedges of the Group are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effectiveness of the cash flow hedge is assessed at the time the Group prepares its annual or interim financial statements.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedge reserve, while any ineffective portion is recognised immediately in the income statement as other operating expenses.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, 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 as at the end of the reporting period 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 relating to items recognised outside profit or loss is recognised, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences as at the end of the reporting period 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:

- when the deferred tax liability arises from initial recognition of goodwill or 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 joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when 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 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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.

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "**PRC**").

Mainland China land appreciation tax ("LAT")

LAT is levied at prevailing progressive rates on the appreciation of land value, being the proceeds of the sale of properties less deductible costs.

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) revenue from the sale of properties is recognised when the significant risks and rewards of properties are transferred to the purchasers, which refers to the time when the construction of relevant properties has been completed and the properties have been ready for delivery to the purchasers pursuant to the sales agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as deposits received;

(b) 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;

(c) service fee income is recognised when the relevant services have been rendered;

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

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

Employee benefits

Share-based payments

The Company operates a share option scheme for the purposes as detailed in note 31 to the financial statements. Employees (including directors) of the Group receive remuneration in the form of share-based payments, 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. The fair value is determined using a binomial model. 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.

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 in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Service and non-market performance are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Share-based payments (continued)

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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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.

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 their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.7% has been applied to the expenditure on the individual assets.

2.4 Summary of Significant Accounting Policies (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling as at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or the income statement is also recognised in other comprehensive income or the income statement, respectively).

The functional currencies of certain subsidiaries, associates and joint ventures operating overseas/in Mainland China are currencies other than Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries, associates and joint ventures operating overseas/in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries, associates and joint ventures operating overseas/in Mainland China 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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) 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 for 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 an investment property.

(ii) When fair value of an investment property under construction can be reliably measured

If the fair value of an investment property under construction is at present not reliably measurable, such property is stated at cost until either its fair value becomes reliably measurables or construction is completed, whichever is earlier.

The Group has to exercise judgement in determining when the fair value of an investment property under construction can be reliably measured by assessing whether a substantial part of the project risk has been reduced or eliminated, which might include the consideration of (i) whether the asset is being constructed in a developed liquid market; (ii) whether the construction permits have been obtained; and (iii) the stage of construction or completion. Other indications may also be appropriate in light of the facts and circumstances of individual developments.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(iii) Income tax

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

As explained in note 29 to the financial statements, withholding tax is levied on dividends to be distributed by subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax is provided, at the applicable withholding tax rate, on the undistributed earnings of the Group's PRC subsidiaries that would be distributed to their respective holding companies outside Mainland China in the foreseeable future.

The Group's investment properties at fair value in Mainland China are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for properties in the same location and condition and subject to similar lease 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 dates 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 carrying amount of investment properties measured at fair value at 31 July 2017 was HK$15,502,400,000 (2016: HK$13,247,500,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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

The total budgeted costs for properties under development/investment properties under construction 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/investment properties under construction, 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.

(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 non-financial assets (other than goodwill)

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) 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 (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(v) Fair value of derivative financial instruments

Where fair value of derivative financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement including considerations of inputs such as expected exposure at default, credit spread and loss given default ratio. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments. The fair value of the Group's derivative financial instruments are disclosed in note 24 to the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

(vi) Provision for LAT and corporate income tax ("CIT")

The Group is subject to LAT in the PRC. The provision of LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final tax outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related LAT provision in the period in which such taxes are finalised with the tax authorities.

The Group is mainly subject to CIT in the PRC. As a result of the fact that certain matters relating to the CIT have not been confirmed by the tax authorities, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of CIT. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and related CIT provision in the period in which such taxes are finalised with the tax authorities.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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

(b) the property investment segment invests in serviced apartments, commercial and office buildings for their rental income potential as well as cultural, leisure, entertainment and related facilities in Mainland China.

Management monitors the results of the Group's operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measured by means of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax and tax indemnity is measured consistently with the Group's profit before tax and tax indemnity except that interest income, fair value gains on cross currency swaps, finance costs and other unallocated gains and expenses are excluded from such measurement.

Segment assets exclude prepaid tax, pledged and restricted time deposits and bank balances, cash and cash equivalents, asset classified as held for sale and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, loans from a joint venture, tax payable, advances from a former substantial shareholder, loans from a fellow subsidiary, fixed rate senior notes, deferred tax liabilities, derivative financial instruments and other unallocated corporate liabilities as these liabilities are managed on a group basis.

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

4. Operating Segment Information (continued)

	Property development		Property investment		Consolidated	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Segment revenue/results:						
Segment revenue						
Sales to external customers	**624,592**	1,414,160	**702,090**	629,370	**1,326,682**	2,043,530
Other revenue	**1,617**	2,659	**120,634**	109,247	**122,251**	111,906
Total	**626,209**	1,416,819	**822,724**	738,617	**1,448,933**	2,155,436
Segment results	**44,340**	511,683	**1,167,066**	846,094	**1,211,406**	1,357,777
Interest income from bank deposits					**22,595**	15,339
Unallocated gains					**6,750**	6,231
Fair value gains on cross currency swaps					**111,657**	—
Unallocated expenses, net					**(143,083)**	(105,158)
Profit from operating activities					**1,209,325**	1,274,189
Finance costs					**(166,083)**	(156,356)
Share of profits of joint ventures	**609,562**	167,752	**—**	—	**609,562**	167,752
Profit before tax and tax indemnity					**1,652,804**	1,285,585
Tax					**(556,156)**	(388,163)
Tax indemnity					**493,936**	—
Profit for the year					**1,590,584**	897,422
Segment assets/liabilities:						
Segment assets	**2,502,894**	2,690,689	**18,240,394**	16,379,121	**20,743,288**	19,069,810
Investments in joint ventures	**1,387,570**	804,431	**—**	—	**1,387,570**	804,431
Investments in associates	**—**	—	**343**	—	**343**	—
Unallocated assets					**2,810,547**	3,767,695
Asset classified as held for sale					**278,531**	257,666
Total assets					**25,220,279**	23,899,602
Segment liabilities	**439,278**	830,687	**767,616**	541,816	**1,206,894**	1,372,503
Unallocated liabilities					**9,244,021**	9,139,485
Total liabilities					**10,450,915**	10,511,988

During the year, no single customer accounted for over 10% of the Group's total turnover (2016: Nil).

4. Operating Segment Information (continued)

	Property development		Property investment		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:						
Depreciation	**2,248**	2,964	**65,090**	63,501	**67,338**	66,465
Corporate and other unallocated depreciation					**4,888**	4,736
					72,226	71,201
Capital expenditure	**1,142**	616	**1,340,700**	678,582	**1,341,842**	679,198
Corporate and other unallocated capital expenditure					**2,022**	367
					1,343,864	679,565
Fair value gains on investment properties	**—**	—	**800,104**	528,015	**800,104**	528,015
Reversal of write-down/(write-down) of completed properties for sale to net realisable value	**3,829**	(3,485)	**—**	—	**3,829**	(3,485)
Loss on return of land use right to the local authority	**—**	19,929	**—**	—	**—**	19,929
Compensation received on return of land use right to the local authority	**6,801**	—	**—**	—	**6,801**	—
Loss on disposal of items of property, plant and equipment	**34**	8	**208**	91	**242**	99

5. Turnover, Other Income and Gains

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

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

	2017 HK$'000	2016 HK$'000
Turnover:		
Sale of properties	**624,592**	1,414,160
Rental income from investment properties and serviced apartments	**702,090**	629,370
	1,326,682	2,043,530
Other income and gains:		
Property management fee income	**108,194**	98,128
Interest income from bank deposits	**22,595**	15,339
Consultancy fee income	**143**	311
Others	**20,664**	19,698
	151,596	133,476

6. Finance Costs

An analysis of the Group's finance costs is as follows:

	Notes	2017 HK$'000	2016 HK$'000
Interest on:			
Bank loans		**138,726**	139,501
2013 Notes (as defined and disclosed in note 28)		**140,957**	141,117
Loans from a joint venture		**25,668**	15,138
Amortisation of :			
Bank loans		**19,055**	12,844
2013 Notes	28	**8,145**	7,583
Bank financing charges and direct costs		**12,689**	18,857
		345,240	335,040
Less: Capitalised in properties under development	14	**(91,480)**	(97,536)
Capitalised in investment properties under construction	15	**(62,586)**	(68,596)
Capitalised in construction in progress	13	**(25,091)**	(12,552)
		(179,157)	(178,684)
Total finance costs		**166,083**	156,356

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.7% (2016: 6.1%) has been applied to the expenditure on the individual assets for the year ended 31 July 2017.

7. Profit From Operating Activities

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of completed properties sold		**509,032**	806,304
Outgoings in respect of rental income		**153,406**	148,420
Total cost of sales		**662,438**	954,724
Depreciation #	13	**72,226**	71,201
Ineffective portion of the effective hedge recognised in profit or loss **	24	**7,925**	9,717
Amortisation of prepaid land lease payments		**15,413**	17,528
Capitalised in properties under development	14	**(15,235)**	(17,342)
	16	**178**	186

7. Profit From Operating Activities (continued)

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

	Note	2017 HK$'000	2016 HK$'000
Minimum lease payments under operating leases in respect of land and buildings		**12,335**	11,343
Capitalised in properties under development/ investment properties under construction/ construction in progress		**(8,695)**	(7,741)
		3,640	3,602
Employee benefit expense (including directors' remuneration — note 8):			
Salaries, wages and benefits		**286,189**	269,692
Pension scheme contributions *		**1,204**	1,208
		287,393	270,900
Capitalised in properties under development/ investment properties under construction/ construction in progress		**(96,852)**	(84,936)
		190,541	185,964
Auditor's remuneration to auditor of the Company		**3,270**	3,279
Foreign exchange differences, net **		**58,715**	24,513
Loss on disposal of items of property, plant and equipment #		**242**	99
Loss on return of land use right to the local authority **	14	**—**	19,929
Compensation received on return of land use right to the local authority **	14	**(6,801)**	—
Contingent rents		**(13,112)**	(4,109)
Write-down/(reversal of write-down) of completed properties for sale to net realisable value **		**(3,829)**	3,485

The depreciation charge of HK$59,380,000 (2016:HK$60,310,000) for serviced apartments and related leasehold improvements and the loss on disposal of items of property, plant and equipment of HK$242,000 (2016: HK$99,000) are included in "Other operating expenses, net" on the face of the consolidated income statement.

* As at 31 July 2017, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in future years (2016: Nil).

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

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 **HK$'000**	2016 HK$'000
Fees	**1,500**	1,375
Other emoluments:		
Salaries, allowances and benefits in kind	**20,995**	20,181
Pension scheme contributions	**129**	129
	21,124	20,310
	22,624	21,685
Capitalised in properties under development/ investment properties under construction/ construction in progress	**(13,493)**	(13,220)
	9,131	8,465

For the years ended 31 July 2017 and 2016, no directors were granted share options.

8. Directors' Remuneration (continued)

The remuneration paid to executive directors, non-executive directors and independent non-executive directors during the year are as follows:

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017				
Executive directors:				
Lam Kin Ming	—	1,140	—	1,140
Lam Kin Hong, Matthew	—	1,140	57	1,197
Lam Hau Yin, Lester	—	1,604	18	1,622
U Po Chu	—	4,275	—	4,275
Chew Fook Aun	—	4,257	18	4,275
Cheng Shin How	—	7,087	18	7,105
Lee Tze Yan, Ernest	—	1,492	18	1,510
	—	20,995	129	21,124
Non-executive directors:				
Lucas Ignatius Loh Jen Yuh	—	—	—	—
Chan Boon Seng (resigned on 1 April 2017)	—	—	—	—
Puah Tze Shyang (appointed on 1 April 2017)	—	—	—	—
	—	—	—	—
Independent non-executive directors:				
Lam Bing Kwan	300	—	—	300
Ku Moon Lun	300	—	—	300
Law Kin Ho	300	—	—	300
Mak Wing Sum, Alvin	300	—	—	300
Shek Lai Him, Abraham	300	—	—	300
	1,500	—	—	1,500
Total	1,500	20,995	129	22,624

8. DIRECTORS' REMUNERATION (CONTINUED)

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016				
Executive directors:				
Lam Kin Ming	—	1,140	—	1,140
Lam Kin Hong, Matthew	—	1,140	57	1,197
Lam Hau Yin, Lester	—	1,609	18	1,627
U Po Chu	—	4,318	—	4,318
Chew Fook Aun	—	3,941	18	3,959
Cheng Shin How	—	6,601	18	6,619
Lee Tze Yan, Ernest	—	1,432	18	1,450
	—	20,181	129	20,310
Non-executive directors:				
Lucas Ignatius Loh Jen Yuh	—	—	—	—
Chan Boon Seng	—	—	—	—
	—	—	—	—
Independent non-executive directors:				
Lam Bing Kwan	275	—	—	275
Ku Moon Lun	275	—	—	275
Law Kin Ho	275	—	—	275
Mak Wing Sum, Alvin	275	—	—	275
Shek Lai Him, Abraham	275	—	—	275
	1,375	—	—	1,375
Total	1,375	20,181	129	21,685

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

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

9. Five Highest Paid Employees

The five highest paid employees during the year included three directors (2016: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2016: two) non-director highest paid employees are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**6,355**	5,929
Capitalised in properties under development/ investment properties under construction/ construction in progress	**(4,067)**	(3,854)
	2,288	2,075

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

	Number of employees	
	2017	2016
HK$2,500,001 — HK$3,000,000	**1**	1
HK$3,000,001 — HK$3,500,000	**1**	1
	2	2

10. Tax and Tax Indemnity

(a) Tax

No provision for Hong Kong profits tax had been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable elsewhere had been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

	Note	**2017 HK$'000**	2016 HK$'000
Current — Mainland China			
CIT			
Charge for the year		**59,843**	130,622
Underprovision in prior years		**—**	21,029
		59,843	151,651
LAT			
Charge for the year		**58,391**	176,315
Underprovision/(overprovision) in prior years		**122,258**	(84,115)
		180,649	92,200
Deferred	29	**315,664**	144,312
Total tax charge for the year		**556,156**	388,163

10. Tax and Tax Indemnity (continued)

(a) Tax (continued)

A reconciliation of the tax expense applicable to profit before tax and tax indemnity at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax and tax indemnity	**1,652,804**	1,285,585
Tax at the statutory tax rate	**413,201**	321,396
Adjustments for tax rates of other jurisdictions	**6,436**	10,986
Provision for LAT	**58,391**	176,315
Adjustment in respect of LAT of prior years	**122,258**	(84,115)
Tax effect of provision for LAT	**(45,162)**	(23,050)
Profits attributable to joint ventures	**(152,390)**	(41,938)
Income not subject to tax	**(20,086)**	(169)
Expenses and losses not deductible for tax	**131,952**	45,035
Tax losses not recognised	**3,902**	1,299
Withholding tax on the distributable earnings of the subsidiaries established in Mainland China	**43,004**	30,353
Other temporary difference	**(5,350)**	(47,949)
Tax charge at the Group's effective tax rate	**556,156**	388,163

10. Tax and Tax Indemnity (continued)

(b) Tax indemnity

	2017 HK$'000	2016 HK$'000
Tax indemnity	**493,936**	—

In connection with the listing of the Company on the Stock Exchange (currently on the Main Board) (the "**Listing**"), a tax indemnity deed was signed on 12 November 1997, pursuant to which Lai Sun Development Company Limited ("**LSD**") has undertaken to indemnify the Group in respect of certain potential Mainland China CIT and LAT payable or shared by the Group in consequence of the disposal of certain property interests attributable to the Group through its subsidiaries and its joint ventures as at 31 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 31 October 1997 (the "**Valuation**") and (ii) the aggregate costs of such Property Interests incurred up to 31 October 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

The indemnity deed assumes that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing 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 18 November 1997. During the year, tax indemnity of HK$493,936,000 (2016: Nil) was received from LSD in relation to the CIT and LAT incurred and paid by the Group which is attributable to the disposal of certain properties located in Guangzhou, Mainland China.

11. Dividend

	2017 HK$'000	2016 HK$'000
Final dividend paid in respect of the year ended 31 July 2016 (2016: final dividend paid in respect of the year ended 31 July 2015)	**58,420**	53,228
Proposed final – HK$0.20 per ordinary share (2016: HK$0.0036 per ordinary share before the effect of the Share Consolidation (as defined in note 30) or HK$0.18 per ordinary share after the effect of the Share Consolidation)	**65,148**	58,312

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

On 16 December 2016, the Company's shareholders approved at the annual general meeting a final dividend of HK$0.0036 per share payable in cash with a scrip dividend alternative (the "**2016 Scrip Dividend Scheme**") for the year ended 31 July 2016 (the "**2016 Final Dividend**"). During the year ended 31 July 2017, 57,394,650 new shares of HK$0.10 each were issued by the Company at a deemed price of HK$0.1634 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2016 Scrip Dividend Scheme to settle HK$9,378,000 of the 2016 Final Dividend. The remainder of the 2016 Final Dividend of HK$49,042,000 was satisfied by cash.

Further details of the 2016 Scrip Dividend Scheme are set out in the Company's circular dated 4 January 2017.

On 11 December 2015, the Company's shareholders approved at the annual general meeting a final dividend of HK$0.0033 per share payable in cash with a scrip dividend alternative (the "**2015 Scrip Dividend Scheme**") for the year ended 31 July 2015 (the "**2015 Final Dividend**"). During the year ended 31 July 2016, 68,017,617 new shares of HK$0.10 each were issued by the Company at a deemed price of HK$0.1172 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2015 Scrip Dividend Scheme to settle HK$7,972,000 of the 2015 Final Dividend. The remainder of the 2015 Final Dividend of HK$45,256,000 was satisfied by cash.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts was based on the profit for the year attributable to owners of the Company of HK$1,477,452,000 (2016: HK$873,527,000), and the weighted average number of ordinary shares of 324,941,534 (2016: adjusted as 323,281,099) in issue during the year, as adjusted to reflect the effect of the Share Consolidation as defined in note 30. Comparative figures have also been adjusted on the assumption that the Share Consolidation had been effective in the prior year.

The calculation of diluted earnings per share amounts was based on the profit for the year attributable to owners of the Company as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 July 2016 in respect of a dilution as the share options had an anti-dilutive effect on the basic earnings per share amount presented. The calculations of basic and diluted earnings per share are based on:

	2017 **HK$'000**	2016 HK$'000
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**1,477,452**	873,527

	Number of shares	
	2017	2016 (Adjusted)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**324,941,534**	323,281,099
Effect of dilution — weighted average number of ordinary shares:		
Share options	**357,669**	—
	325,299,203	323,281,099

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13. Property, Plant and Equipment

	Notes	Leasehold buildings HK$'000	Serviced apartments HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:									
As at 1 August 2015		110,839	1,227,141	287,572	42,817	20,285	13,189	175,875	1,877,718
Finance costs capitalised	6	—	—	—	—	—	—	12,552	12,552
Additions		—	293	4,518	2,297	878	903	68,630	77,519
Disposals		—	—	—	(516)	(664)	(82)	—	(1,262)
Transfer from investment properties under construction	15	—	—	—	—	—	—	164,411	164,411
Exchange realignment		(3,929)	(45,523)	(17,020)	(1,877)	(694)	(621)	(9,540)	(79,204)
As at 31 July 2016 and 1 August 2016		106,910	1,181,911	275,070	42,721	19,805	13,389	411,928	2,051,734
Finance costs capitalised	6	—	—	—	—	—	—	25,091	25,091
Additions		—	7,725	3,474	3,787	1,282	3,006	292,490	311,764
Disposals		—	—	(339)	(1,451)	(471)	(443)	—	(2,704)
Exchange realignment		(594)	(6,884)	(2,701)	(302)	(92)	(113)	(3,405)	(14,091)
As at 31 July 2017		**106,316**	**1,182,752**	**275,504**	**44,755**	**20,524**	**15,839**	**726,104**	**2,371,794**
Accumulated depreciation:									
As at 1 August 2015		33,975	301,035	159,190	32,269	16,317	8,836	—	551,622
Depreciation provided during the year	7	2,648	25,881	35,702	3,965	1,350	1,655	—	71,201
Disposals		—	—	—	(492)	(597)	(74)	—	(1,163)
Exchange realignment		(1,563)	(6,960)	(9,981)	(1,342)	(539)	(412)	—	(20,797)
As at 31 July 2016 and 1 August 2016		35,060	319,956	184,911	34,400	16,531	10,005	—	600,863
Depreciation provided during the year	7	2,567	25,449	36,533	4,909	1,182	1,586	—	72,226
Disposals		—	—	(279)	(1,296)	(471)	(416)	—	(2,462)
Exchange realignment		(218)	(891)	(1,196)	(148)	(57)	(54)	—	(2,564)
As at 31 July 2017		**37,409**	**344,514**	**219,969**	**37,865**	**17,185**	**11,121**	**—**	**668,063**
Net carrying amount:									
As at 31 July 2017		**68,907**	**838,238**	**55,535**	**6,890**	**3,339**	**4,718**	**726,104**	**1,703,731**
As at 31 July 2016		71,850	861,955	90,159	8,321	3,274	3,384	411,928	1,450,871

As at 31 July 2017, certain serviced apartments (including related leasehold improvements) and construction in progress with an aggregate carrying amount HK$517,575,000 (2016: HK$572,068,000) and HK$726,104,000 (2016: HK$411,928,000), respectively, were pledged to banks to secure certain bank borrowings of the Group as further set out in note 25(a) and note 25(b) to the financial statements.

14. Properties Under Development

	Notes	2017 HK$'000	2016 HK$'000
Carrying amount as at 1 August		**1,976,219**	1,895,857
Finance costs capitalised	6	**91,480**	97,536
Additions (including capitalisation of prepaid land lease payments of HK$15,235,000 (2016: HK$17,342,000))		**503,568**	378,891
Amortisation of prepaid land lease payments	7	**(15,235)**	(17,342)
Transfer to completed properties for sale		**(982,980)**	—
Return of land use right to the local authority #		**—**	(267,078)
Exchange realignment		**(17,260)**	(111,645)
Carrying amount as at 31 July		**1,555,792**	1,976,219
Amount classified as current assets		**(213,818)**	(791,844)
Non-current portion		**1,341,974**	1,184,375

During the year ended 31 July 2016, a site located on Guan Lu Road in Yuexiu District of Guangzhou, Mainland China was returned to the local authority with a cash consideration of HK$247,149,000 received. A loss on return of land use right to the local authority of HK$19,929,000 (note 7) was included in "Other operating expenses, net" on the face of the consolidated income statement for the year ended 31 July 2016. During the year ended 31 July 2017, a compensation of HK$6,801,000 with regard to the aforesaid return of land use right was received by the Group from the local authority (note 7) and was included in "Other operating expenses, net" on the face of the consolidated income statement for the year ended 31 July 2017.

As at 31 July 2017, certain properties under development with an aggregate carrying amount of HK$497,190,000 (2016: HK$361,669,000) were pledged to banks to secure certain bank borrowings of the Group as further set out in note 25(c) to the financial statements.

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

	Note	2017 HK$'000	2016 HK$'000
Carrying amount as at 1 August		**901,076**	1,075,097
Addition		**60,105**	—
Amortised during the year	7	**(15,235)**	(17,342)
Transfer to completed properties for sale		**(41,509)**	—
Return of land use right to the local authority		**—**	(91,965)
Exchange realignment		**(9,041)**	(64,714)
Carrying amount as at 31 July		**895,396**	901,076

15. Investment Properties

	2017 HK$'000	2016 HK$'000
Completed investment properties	**12,382,400**	12,697,500
Investment properties under construction, at fair value	**3,120,000**	550,000
Investment properties under construction, at cost *	**954,821**	1,414,228
Total	**16,457,221**	14,661,728

* Certain investment properties under construction were carried at cost as at the end of the reporting period as such properties were under the planning or resettlement stage and their fair values were not reliably measurable.

	Notes	**2017 HK$'000**	2016 HK$'000
Carrying amount as at 1 August		**14,661,728**	14,479,603
Finance costs capitalised	6	**62,586**	68,596
Additions		**1,032,100**	602,046
Transfer from completed properties for sale		**16,075**	34,582
Transfer to construction in progress	13	**—**	(164,411)
Net gain from fair value adjustments		**800,104**	528,015
Exchange realignment		**(115,372)**	(886,703)
Carrying amount as at 31 July		**16,457,221**	14,661,728

The completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

As at 31 July 2017, certain investment properties with an aggregate carrying amount of HK$10,401,180,000 (2016: HK$9,431,499,000) were pledged to banks to secure certain bank borrowings of the Group as further set out in note 25(d) to the financial statements.

Valuation processes of the Group

Each year, the Group's management appoints an external valuer to be responsible for the external valuations of the Group's properties (the "**Property Valuers**"). Selection criteria of an external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the Property Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The valuation techniques used in prior years have been consistently applied in current year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's completed investment properties and investment properties under construction stated at fair value were revalued by Knight Frank Petty Limited, an independent professionally qualified valuer.

15. Investment Properties (continued)

Valuation techniques

Fair value measurements using significant unobservable inputs (Level 3)

The Group's investment properties consist of commercial properties in Mainland China.

For completed investment properties, valuations are based on income capitalisation method and direct comparison method. The income capitalisation method is based on capitalisation of the net income and the reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuations have reference to valuers' view of recent lettings, within the subject properties and other comparable properties. The direct comparison method is based on market comparable transactions available in the market and adjustments of various factors would be made between the subject properties and comparable properties.

For investment properties under construction stated at fair value, the Group has valued such properties on the basis that they will be developed and completed in accordance with the Group's latest development plans. Valuations are based on residual method, which is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk associated with the estimated capital value of the proposed development assuming completed as at the date of valuation.

Information about fair value measurement using significant unobservable inputs (Level 3)

2017

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties				
Commercial properties	Income capitalisation method	Average unit market rent per month (HK$/sq.m)	32-370	note 1
		Capitalisation rate	4.25%-7.50%	note 2
Residential property	Direct comparison method	Average market unit rate (HK$/sq.m)	160,000	note 6
Investment properties under construction				
Commercial properties	Residual method	Gross development value (HK$/sq.m)	14,500-88,700	note 3
		Developer's profit margin	5%-20%	note 4
		Budgeted costs to completion (HK$)	1,285,400,000-1,317,117,000	note 5

15. Investment Properties (continued)

Valuation techniques (continued)

2016

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties				
Commercial properties	Income capitalisation method	Average unit market rent per month (HK$/sq.m)	33-357	note 1
		Capitalisation rate	4.25% – 7.50%	note 2
Commercial/ residential properties	Direct comparison method	Average market unit rate (HK$/sq.m)	23,900 – 156,000	note 6
Investment properties under construction				
Commercial properties	Residual method	Gross development value (HK$/sq.m)	9,400 – 26,300	note 3
		Developer's profit margin	30%	note 4
		Budgeted costs to completion (HK$)	1,294,294,000	note 5

Notes:

1. The higher the market rent, the higher the fair value
2. The higher the capitalisation rate, the lower the fair value
3. The higher the gross development value, the higher the fair value
4. The higher the developer's profit margin, the lower the fair value
5. The higher the budgeted costs to completion, the lower the fair value
6. The higher the market unit rate, the higher the fair value

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

16. Prepaid Land Lease Payments

	Note	2017 HK$'000	2016 HK$'000
Carrying amount as at 1 August		**4,623**	5,115
Amortised during the year	7	**(178)**	(186)
Exchange realignment		**(48)**	(306)
Carrying amount as at 31 July		**4,397**	4,623

17. Deposit For Acquisition of an Investment Property

On 30 September 2015, Shanghai Zhabei Plaza Real Estate Development Company Limited ("**Shanghai Zhabei**", as purchaser), being a subsidiary of the Company, Federation of Trade Union of Zhabei District of Shanghai ("**Zhabei Trade Union**", as vendor) and the Company (as guarantor) entered into an agreement, pursuant to which Shanghai Zhabei conditionally agreed to acquire and Zhabei Trade Union conditionally agreed to sell certain property (the "**Property**") at a cash consideration of approximately RMB355.1 million (equivalent to approximately HK$413.9 million) (the "**Acquisition**"). The Property, comprising portion of a commercial building with total gross floor area of approximately 10,345 sqm (equivalent to approximately 111,354 sq.ft.) and the right to use 20 basement carparking spaces, was physically connected to an investment property held by the Group and situated at Jing'an District, Shanghai.

Further details of the Acquisition are set out in a joint announcement of the Company and eSun dated 30 September 2015.

As at 31 July 2016, a deposit for the Acquisition of RMB195.3 million (equivalent to approximately HK$228.6 million) was paid. During the year ended 31 July 2017, the remaining consideration of RMB159.8 million (equivalent to approximately HK$185.3 million) was paid and the Acquisition was completed.

18. Investments in Joint Ventures

	2017 HK$'000	2016 HK$'000
Share of net assets, other than goodwill	**1,201,664**	618,578
Due from joint ventures	**185,906**	185,853
	1,387,570	804,431

The amounts due from joint ventures were unsecured, interest-free and had no fixed terms of repayment.

18. Investments in Joint Ventures (continued)

	2017 Effective interest rate (%)	2017 HK$'000	2016 Effective interest rate (%)	2016 HK$'000
Unsecured loans from a joint venture:				
Current	**3.92**	**192,731**	3.92-4.20	350,328
Non-current	**3.05-4.20**	**649,779**	3.05	222,430
		842,510		572,758
Maturity profile:				
Within one year		**192,731**		350,328
In the second year		**220,264**		—
In the third to fifth years, inclusive		**429,515**		222,430
		842,510		572,758

Details of the joint ventures are set out in note 44 to the financial statements.

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs and adjusted by the Group for equity accounting purposes. The joint ventures are accounted for using the equity method in the consolidated financial statements.

18. Investments in Joint Ventures (continued)

The summarised financial information below represents amounts shown in the consolidated financial statements of Beautiwin Limited and Guangzhou Beautiwin Real Estate Development Company Limited ("**Guangzhou Beautiwin**"), the holder of Dolce Vita project in Guangzhou, (collectively referred to as the "**Beautiwin Group**") prepared in accordance with HKFRSs:

	2017 HK$'000	2016 HK$'000
Assets and liabilities		
Current assets (including cash and cash equivalents of HK$2,963,774,000 (2016: HK$742,188,000))	**3,826,574**	5,326,816
Non-current assets	**1,477,284**	647,143
Total assets	**5,303,858**	5,973,959
Current liabilities	**(2,372,663)**	(4,647,793)
Non-current liabilities	**(371,263)**	—
Total liabilities	**(2,743,926)**	(4,647,793)
Current financial liabilities (excluding creditors and accruals)	**—**	(371,271)
Profit and total comprehensive income for the year		
Revenue (including interest income of HK$44,523,000 (2016: HK$17,132,000))	**4,167,559**	1,549,223
Cost of sales	**(1,395,935)**	(601,111)
Expenses (including depreciation expenses of HK$841,000 (2016: HK$1,139,000))	**(40,581)**	(54,154)
Tax	**(1,504,598)**	(539,235)
Profit for the year	**1,226,445**	354,723
Other comprehensive income/(expense) for the year, net of tax	**7,321**	(115,638)
Total comprehensive income for the year, net of tax	**1,233,766**	239,085
Less: Non-controlling interests	**(67,594)**	(8,027)
	1,166,172	231,058

18. Investments in Joint Ventures (continued)

Reconciliation of the above summarised financial information of the Beautiwin Group to the carrying amount of the interests in the joint ventures recognised in the consolidated financial statements:

	2017 HK$'000	2016 HK$'000
Net assets of the Beautiwin Group	**2,559,932**	1,326,166
Less: Non-controlling interests	**(156,604)**	(89,010)
	2,403,328	1,237,156
The Group's 50% interests in the Beautiwin Group	**1,201,664**	618,578
Amount due from the Beautiwin Group	**185,906**	185,853
Carrying amount of the Group's interests in the Beautiwin Group as recorded in the consolidated financial statements	**1,387,570**	804,431

19. Investments In Associates

	2017 HK$'000	2016 HK$'000
Share of net assets	**283**	—
Amount due from an associate	**60**	—
	343	—

The amount due from an associate was unsecured, interest-free and had no fixed terms of repayment.

The associates are accounted for using the equity method in these consolidated financial statements.

As at 31 July 2017, there were no material associates which principally affected the result for the year or formed a substantial portion of the net assets of the Group.

The aggregate financial information of the Group's associates that are not individually material is as follows:

	2017 HK$'000	2016 HK$'000
Share of the associates' profits or losses and total comprehensive income	**—**	—

20. 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. Serviced apartment charges are mainly settled by customers on a 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 were interest-free.

The Group did not hold any collateral or other credit enhancements over these balances.

An ageing analysis of trade receivables as at the end of the reporting period, based on payment due date, is as follows:

	2017 **HK$'000**	2016 HK$'000
Trade receivables, net		
Within one month	**103,530**	239,078
One to three months	**2,897**	6,466
Over three months	**3,794**	5,276
	110,221	250,820
Other receivables, deposits and prepayments	**146,450**	116,248
Total	**256,671**	367,068

21. Cash And Cash Equivalents and Pledged and Restricted time Deposits and Bank Balances

	Note	2017 HK$'000	2016 HK$'000
Cash and bank balances		**2,160,244**	2,795,484
Less: Pledged and restricted bank balances			
Pledged for banking facilities *		**—**	(5,692)
Pledged for bank loans	25(f)	**(214,476)**	(131,538)
Restricted **		**(169,767)**	(929,144)
Non-pledged and non-restricted cash and bank balances		**1,776,001**	1,729,110
Time deposits		**468,124**	817,130
Less: Pledged and restricted time deposits			
Pledged for bank loans	25(f)	**(186,779)**	—
Non-pledged and non-restricted time deposits		**281,345**	817,130
Cash and cash equivalents		**2,057,346**	2,546,240

* The balances were 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 the relevant laws and regulations imposed by the government authorities concerned or the terms and conditions set out in the relevant bank loan agreements, proceeds from the pre-sale of certain properties are required to be deposited into designated bank accounts and restricted to be used in the relevant project construction. Such restriction will be uplifted upon repayment of the relevant bank loans or the attainment of the relevant ownership certificates issued by the authorities. As at 31 July 2017, the balance was HK$123,600,000 (2016: HK$778,893,000).

In accordance with the relevant laws and regulations imposed by the government authorities concerned, estimated resettlement costs of certain sites for development are required to be deposited into designated bank accounts. Such deposits are restricted to be used for the resettlement and such restriction will be uplifted upon completion of the resettlement. As at 31 July 2017, the balance amounted to HK$24,681,000 (2016: HK$33,153,000).

In accordance with the relevant clauses of certain bank loan facilities, proceeds from the drawdown of bank loans are required to be deposited into designated bank accounts and restricted to be used for settlement of construction costs of the relevant projects. As at 31 July 2017, the balance amounted to HK$21,486,000 (2016: HK$117,098,000).

The conversion of Renminbi ("**RMB**") denominated time deposits and cash and bank balances into foreign currencies and the remittance of such foreign currencies denominated balances out of Mainland China are subject to the relevant rules and regulations of foreign exchange control promulgated by the government authorities concerned. As at 31 July 2017, such RMB denominated time deposits and cash and bank balances of the Group amounted to HK$2,134,727,000 (2016: HK$3,083,928,000).

22. Asset Classified as Held For Sale

On 23 November 1993, Grand Wealth Limited ("**Grand Wealth**"), an indirect wholly-owned subsidiary of the Company, and Guangzhou Light Industry Real Estate Development Company ("**Guangzhou Light Industry**") entered into a joint venture agreement (as supplemented, the "**JVA**") to form a co-operative joint venture company, Guangzhou Grand Wealth Properties Limited ("**Guangzhou Grand Wealth**") in relation to a property development project in Guangzhou, the PRC known as Guangzhou Eastern Place.

In accordance with the original terms of the JVA, upon completion of Guangzhou Eastern Place Phase V, certain residential and office units of Guangzhou Eastern Place Phase V will be allocated and transferred to Guangzhou Light Industry.

On 15 January 2015, Grand Wealth and Guangzhou Light Industry entered into a new supplemental agreement (the "**Supplemental Agreement**") to, among other things, amend the above arrangement whereby Grand Wealth and Guangzhou Light Industry conditionally agreed that in lieu of allocating certain office units of Guangzhou Eastern Place Phase V (the "**Original Property**") to Guangzhou Light Industry as contemplated under the JVA, Grand Wealth would procure the transfer of Guangzhou Paramount Centre, a serviced apartment under development of the Group in Guangzhou, the PRC (the "**Substituted Property**") to Guangzhou Light Industry (the "**Transaction**").

Further details of the Transaction are set out in a joint announcement of the Company and eSun dated 15 January 2015, and in a circular of eSun dated 16 February 2015.

Subsequent to 31 July 2017, the Transaction was completed in August 2017.

The Substituted Property was classified as an asset classified as held for sale and its non-recurring fair value measurement is as follows:

Non-recurring fair value measurement:

	2017 **HK$'000**	2016 HK$'000
Asset classified as held for sale	**278,531**	257,666

In accordance with HKFRS 5, as at 31 July 2017, the asset classified as held for sale with a carrying amount of HK$278,531,000 is assessed against its fair value of HK$315,905,000 less costs to sell of HK$37,374,000 and no impairment is recognised for the year ended 31 July 2017.

As at 31 July 2016, the asset classified as held for sale with a carrying amount of HK$257,666,000 is assessed against its fair value of HK$302,388,000 less costs to sell of HK$44,722,000 and no impairment is recognised for the year ended 31 July 2016.

Valuation process of the Group

The Group's asset classified as held for sale stated at fair value less costs to sell was valued by Knight Frank Petty Limited, an independent professionally qualified valuer. The valuation process is the same as that of investment properties as disclosed in note 15.

22. Asset Classified as Held For Sale (continued)

Valuation technique

Fair value measurement using significant unobservable inputs (Level 3)

For asset classified as held for sale, valuations are based on direct comparison method. This method is based on market comparable transactions available in the market and adjustments of various factors would be made between the subject property and comparable properties.

Information about fair value measurement using significant unobservable inputs (Level 3)

2017

Description	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**
Commercial properties	Direct comparison method	Average market unit rate (HK$/sq.m)	37,100-54,500	note 1

2016

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial properties	Direct comparison method	Average market unit rate (HK$/sq.m)	37,500 -55,000	note 1

Note 1: The higher the market unit rate, the higher the fair value

23. Creditors and Accruals

An ageing analysis of trade payables as at the end of the reporting period, based on payment due date, is as follows:

	2017 HK$'000	2016 HK$'000
Trade payables		
Within one month	**201,075**	81,680
One to three months	**4,244**	16,777
Over three months	**552**	72
	205,871	98,529
Accruals and other payables	**751,176**	698,983
Total	**957,047**	797,512

Trade payables of the Group were interest-free and were due for settlement pursuant to the terms of the relevant agreements.

24. Derivative Financial Instruments

	2017 HK$'000	2016 HK$'000
Financial liabilities - Cross currency swap agreements (the "**CCS**")	**208,223**	210,068

The carrying amounts of the CCS are the same as their fair values.

The movements in the financial liabilities arising from the CCS during the year are as follows:

	Note	2017 HK$'000	2016 HK$'000
Carrying amount as at 1 August		**210,068**	111,654
Fair value losses charged to the hedge reserve (note a)		**101,887**	88,697
Fair value gains credited to the consolidated income statement (note b)		**(111,657)**	—
Ineffective portion of the effective hedge recognised in profit or loss	7	**7,925**	9,717
Carrying amount as at 31 July		**208,223**	210,068
Amount classified as current liabilities		**(208,223)**	—
Non-current portion		**—**	210,068

24. Derivative Financial Instruments (continued)

Cross Currency Swaps - cash flow hedge

On 25 April 2013, the Group entered into the CCS with financial institutions with an aggregate nominal amount of RMB1,800,000,000 for the purpose of hedging the foreign currency risk arising from the 2013 Notes as detailed in note 28 to the financial statements.

Pursuant to the terms of the CCS, the Company receives interest payments semi-annually at a fixed rate of 6.875% per annum on the aggregate notional amount of RMB1,800,000,000 during the period from 25 April 2013 to 25 April 2018 right before each Interest Payment Date (as defined in note 28) of the 2013 Notes, and makes interest payments semi-annually at a fixed rate of 6.135% per annum on the aggregate notional amount of approximately US$291,616,000 (being the US$ equivalent amount of RMB1,800,000,000, translated at a contracted exchange rate of US$1 to RMB6.1725) during the period from 25 April 2013 to 25 April 2018 right before each Interest Payment Date. Right before 25 April 2018, the Group will receive the aggregate notional amount of RMB1,800,000,000 and will pay the aggregate notional amount of US$291,616,000.

The CCS are designated as hedging instruments in respect of the 2013 Notes and the CCS balances vary with the changes in foreign exchange forward rates.

The effectiveness of the cash flow hedges is assessed semi-annually by the Group. The assessment results of the cash flow hedges are set out as follows:

(a) As at 31 January 2016, 31 July 2016 and 31 January 2017, the cash flow hedges of the 2013 Notes were assessed to be highly effective. A net loss on the cash flow hedges of HK$32,234,000 for the period between 1 August 2016 and 31 January 2017 (2016: a net gain of HK$47,059,000) was included in the hedge reserve as follows:

	2017 HK$'000	2016 HK$'000
Total fair value losses included in the hedge reserve	**(101,887)**	(88,697)
Transferred from the hedge reserve to the consolidated income statement for the exchange gains of the 2013 Notes	**69,653**	135,756
Net gain/(loss) on cash flow hedges	**(32,234)**	47,059

(b) As at 31 July 2017, the cash flow hedges of the 2013 Notes were assessed to be ineffective and did not qualify for hedge accounting. Fair value gains of HK$111,657,000 arising from changes in the fair values of the CCS between 1 February 2017 and 31 July 2017 were credited to the consolidated income statement for the year ended 31 July 2017.

25. INTEREST-BEARING BANK LOANS, SECURED

	2017 Effective interest rate (%)	2017 HK$'000	2016 Effective interest rate (%)	2016 HK$'000
Secured bank loans:				
Current	**4.14-5.88**	**82,031**	3.94-6.89	287,548
Non-current	**3.84-5.88**	**2,814,062**	3.64-6.89	2,747,970
		2,896,093		3,035,518
Maturity profile:				
Within one year		**82,031**		287,548
In the second year		**200,166**		537,497
In the third to fifth years, inclusive		**2,524,667**		2,085,245
Beyond five years		**89,229**		125,228
		2,896,093		3,035,518

On 28 March 2013, the Company (i) as borrower and, inter alios, the banks named therein as lenders entered into an offshore facility agreement in relation to facilities of HK$2,500,000,000 (the "**2013 Offshore Facilities**"); and (ii) as guarantor and, inter alios, certain subsidiaries of the Company as borrowers and banks named therein as lenders entered into an onshore facility agreement in relation to facilities of approximately HK$1,050,000,000 equivalent (the "**2013 Onshore Facilities**"). As at 31 July 2015, HK$1,510,000,000 and HK$968,085,000 were outstanding under the 2013 Offshore Facilities and the 2013 Onshore Facilities, respectively. Both the 2013 Offshore Facilities and 2013 Onshore Facilities matured on 28 March 2016.

On 18 March 2016, the Company (i) as borrower and, inter alios, the banks named therein as lenders entered into an offshore facility agreement in relation to facilities of HK$2,650,000,000 (the "**2016 Offshore Facilities**"); and (ii) as guarantor and, inter alios, certain subsidiaries of the Company as borrowers and banks named therein as lenders entered into an onshore facility agreement in relation to facilities of approximately HK$936,000,000 equivalent (the "**2016 Onshore Facilities**").

The purposes of the 2016 Offshore Facilities are mainly for financing investments in property related projects, refinancing the loans outstanding under the 2013 Offshore Facilities due on 28 March 2016 and general corporate purposes of the Group. The entire 2016 Onshore Facilities were drawn and fully applied for refinancing the loans outstanding under the 2013 Onshore Facilities due on 28 March 2016. As at 31 July 2017, HK$930,000,000 (2016: HK$1,394,000,000) and HK$897,151,000 (2016: HK$916,581,000) were outstanding under the 2016 Offshore Facilities and the 2016 Onshore Facilities, respectively.

25. Interest-Bearing Bank Loans, Secured (continued)

Bank loans of the Group as at the end of the reporting period were secured by:

(a) mortgages over certain serviced apartments (including related leasehold improvements) of the Group with an aggregate carrying amount of HK$517,575,000 (2016: HK$572,068,000) (note 13);

(b) mortgage over construction in progress of the Group with an aggregate carrying amount of HK$726,104,000 (2016: HK$411,928,000) (note 13);

(c) mortgages over certain properties under development of the Group with an aggregate carrying amount of HK$497,190,000 (2016: HK$361,669,000) (note 14);

(d) mortgages over certain investment properties of the Group with an aggregate carrying amount of HK$10,401,180,000 (2016: HK$9,431,499,000) (note 15);

(e) mortgages over certain completed properties for sale for the Group with an aggregate carrying amount of HK$55,900,000 as at 31 July 2016;

(f) charges over time deposits and bank balances of the Group with an aggregate carrying amount of HK$401,255,000 (2016: HK$131,538,000) (note 21);

(g) charges over the entire equity interests in certain subsidiaries of the Company shared on a pari passu basis with the holders of fixed rate senior notes (note 28); and

(h) charges over the entire equity interest in a subsidiary of the Company.

Pursuant to an intercreditor agreement dated 28 March 2013 (as amended, restated and supplemented from time to time) (the "**Intercreditor Agreement**"), (i) the lenders under the 2016 Offshore Facilities, (ii) the holder of 2013 Notes (as defined in note 28) and (iii) the holders of future permitted pari passu secured indebtedness, if any, are entitled to the benefit of a lien on a package of securities shared on a pari passu basis. Accordingly, as at 31 July 2017 and 31 July 2016, the 2016 Offshore Facilities are guaranteed on a joint and several basis by the same entities acting as subsidiary guarantors under the 2013 Notes, subject to certain limitations. In addition, the shares in certain subsidiaries of the Company and a debt service reserve account (collectively, the "**Collateral**") have been charged to secure amounts outstanding under the 2016 Offshore Facilities (and on a pari passu basis with the 2013 Notes).

After execution of the facility agreement in relation to the 2016 Offshore Facilities, on 21 March 2016, the agent of the 2016 Offshore Facilities acceded to and became a party to the Intercreditor Agreement. Upon and after the refinancing of the 2013 Offshore Facilities on 24 March 2016, the agent of the 2013 Offshore Facilities ceased to be a party to the Intercreditor Agreement in accordance with the terms thereof.

26. Advances From a Former Substantial Shareholder

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 end of the reporting period. The advances were unsecured and interest-free.

27. Loans From a Fellow Subsidiary

The fellow subsidiary, as a non-controlling shareholder of a subsidiary of the Company, agreed that no demand for settlement of the loans would be made to that subsidiary within one year from the end of the reporting period. The loans were unsecured and interest-free.

28. Fixed Rate Senior Notes

RMB1,800,000,000 6.875% Senior Notes due 2018

On 25 April 2013, the Company issued RMB1,800,000,000 (equivalent to approximately HK$2,243,270,000) of 6.875% fixed rate senior notes (the "**2013 Notes**"), which will mature on 25 April 2018 for bullet repayment. The 2013 Notes bear interest from 25 April 2013 and are payable semi-annually in arrears on 25 April and 25 October of each year, commencing on 25 October 2013 (each, an "**Interest Payment Date**"). The 2013 Notes are listed on the Stock Exchange.

The 2013 Notes were issued for refinancing of existing debt and for general corporate purposes. The net proceeds of the 2013 Notes after deducting issue expenses amounted to approximately HK$2,205,883,000.

No 2013 Notes were repurchased during the year (2016: Nil).

The senior notes recognised in the statement of financial position are calculated as follows:

	2017 HK$'000	2016 HK$'000
Carrying amount as at 1 August	**2,092,741**	2,220,914
Amortisation of the 2013 Notes (note 6)	**8,145**	7,583
Exchange realignment	**(20,520)**	(135,756)
Carrying amount as at 31 July	**2,080,366**	2,092,741
Amount classified as current liabilities	**(2,080,366)**	—
Non-current portion	**—**	2,092,741

The effective interest rates of the 2013 Notes is 7.28% per annum.

In connection with the 2013 Notes, the Company entered into the CCS (as defined in note 24) with financial institutions, which have effectively converted the 2013 Notes into fixed rate US$ denominated loans. Taking into account the CCS, the effective interest rate of the 2013 Notes is 6.53% per annum. Details of the CCS are set out in note 24 to the financial statements.

As detailed in note 25 to the financial statements, the holder of 2013 Notes are entitled to the benefit of a lien on a package of securities, comprising guarantees provided by certain subsidiaries of the Company and charges over the Collateral, on a pari passu basis with the lenders under the 2016 Offshore Facilities and the holders of future permitted pari passu secured indebtedness, if any.

29. DEFERRED TAX

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

	Depreciation allowance in excess of related depreciation and development costs HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of properties HK$'000	Withholding tax HK$'000	Losses available for offsetting against future taxable profits HK$'000	Other temporary differences HK$'000	Total HK$'000
As at 1 August 2015	468,566	115,938	1,737,681	38,494	(11,194)	57,907	2,407,392
Deferred tax charged/(credited) to the income statement during the year (note 10(a))	45,895	(3,443)	132,004	30,353	(12,548)	(47,949)	144,312
Exchange realignment	(29,245)	(6,939)	(107,016)	—	935	(2,519)	(144,784)
As at 31 July 2016 and 1 August 2016	485,216	105,556	1,762,669	68,847	(22,807)	7,439	2,406,920
Deferred tax charged/(credited) to the income statement during the year (note 10(a))	61,580	—	200,026	43,004	16,404	(5,350)	315,664
Exchange realignment	(3,691)	(1,027)	(14,178)	—	508	(164)	(18,552)
As at 31 July 2017	**543,105**	**104,529**	**1,948,517**	**111,851**	**(5,895)**	**1,925**	**2,704,032**

As at 31 July 2017, the Group had tax losses arising in Mainland China of HK$152,662,000 (2016: HK$137,054,000) that would expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it may not be probable that taxable profits will be available against which the tax losses could be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% (2016: 10%). The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

30. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Authorised:		
20,000,000,000 (2016: 20,000,000,000) ordinary shares of HK$0.10 each	**2,000,000**	2,000,000
Issued and fully paid:		
16,285,086,736 (2016: 16,197,692,086) ordinary shares of HK$0.10 each	**1,628,509**	1,619,770

The movements in authorised and issued share capital of the Company during the year were as follows:

	Number of authorised shares	**Number of issued shares**	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
As at 1 August 2015	20,000,000,000	16,129,674,469	1,612,968	4,068,087	5,681,055
Shares issued in lieu of cash dividend (note 11)	—	68,017,617	6,802	1,170	7,972
As at 31 July 2016 and 1 August 2016	20,000,000,000	16,197,692,086	1,619,770	4,069,257	5,689,027
Issue of shares upon exercise of share options*	—	30,000,000	3,000	2,361	5,361
Shares issued in lieu of cash dividend (note 11)	—	57,394,650	5,739	3,639	9,378
As at 31 July 2017	20,000,000,000	16,285,086,736	1,628,509	4,075,257	5,703,766

* During the year ended 31 July 2017, 30,000,000 ordinary shares of HK$0.10 each were issued in respect of a share option exercised under the Company's share option scheme at an exercise price of HK$0.133 per share and total cash consideration of HK$3,990,000 was received. The share option reserve of HK$1,371,000 was released to the share premium account.

Subsequent to 31 July 2017, the shareholders of the Company approved at the extraordinary general meeting held on 14 August 2017 that every fifty issued and unissued ordinary shares of HK$0.10 each in the share capital of the Company are consolidated into one ordinary share of HK$5.00 each in the share capital of the Company which became effective on 15 August 2017 (the "**Share Consolidation**"). As a result of the Share Consolidation, the number of authorised ordinary shares was adjusted from 20,000,000,000 of HK$0.10 each to 400,000,000 of HK$5.0 each while the number of issued and fully paid ordinary shares was adjusted from 16,285,086,736 of HK$0.10 each to 325,701,734 of HK$5.0 each.

Further details of the Share Consolidation are set out in an announcement and circular of the Company dated 18 July 2017 and 26 July 2017, respectively.

30. Share Capital (continued)

Share options

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

31. Share Option Schemes

2003 Share Option Scheme

On 21 August 2003, the Company adopted a share option scheme (the "**2003 Share Option Scheme**") for the purpose of providing incentives and rewards to Eligible Participants (as defined in the scheme) who contribute to the success of the Group's operations. Eligible Participants of the 2003 Share Option Scheme include the directors and any employees of the Group. Unless otherwise cancelled or amended, the 2003 Share Option Scheme will remain in force for 10 years from that date. The 2003 Share Option Scheme was terminated upon the adoption of the 2012 Share Option Scheme (as defined below) on 18 December 2012.

The maximum number of share options permitted to be granted under the 2003 Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as approved in accordance with the 2003 Share Option Scheme. The maximum number of shares issuable under share options to each Eligible Participant in the 2003 Share Option 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 of the Company.

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 of the Company. 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 closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such period shall not be longer than 8 years from the date of grant of the share options.

The exercise price of the share options is determined by the directors of the Company, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

31. Share Option Schemes (continued)

2012 Share Option Scheme

On 18 December 2012 (the "**Adoption Date**"), the Company adopted a new share option scheme (the "**2012 Share Option Scheme**") and terminated the 2003 Share Option Scheme. Subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the previous scheme. The purpose of the 2012 Share Option Scheme is to recognise the contribution or future contribution of the Eligible Participants (as defined in the scheme) to the Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-calibre Eligible Participants in line with the performance goals of the Relevant Companies (as defined in the scheme). Eligible Participants include but are not limited to the directors and any employees of the Group. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will remain in force for 10 years from the Adoption Date.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the 2012 Share Option Scheme (i) shall not exceed 10% of the shares of the Company in issue on the Adoption Date; (ii) shall not exceed 30% of the shares of the Company in issue from time to time; and (iii) to each Eligible Participant and 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 the limits set out in (i) and (iii) is subject to the approval of shareholders of the Company and the shareholders of eSun (so long as the Company is a subsidiary of eSun under the Listing Rules) in the respective general meetings.

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 of each of the Company and eSun (so long as the Company is a subsidiary of eSun under the Listing Rules). 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 closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the approval of shareholders of the Company and the shareholders of eSun (so long as the Company is a subsidiary of eSun under the Listing Rules) in the respective general meetings.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such period shall not be longer than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, which shall be at least the highest of (i) the Stock Exchange closing price of the Company's shares on the date of grant 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 grant; and (iii) the nominal value of a share of the Company on the date of grant.

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

31. Share Option Schemes (continued)

The movements of share options under the 2003 Share Option Scheme and the 2012 Share Option Scheme during the year are as follows:

	2017		2016	
	Number of underlying shares comprised in share options	**Weighted average exercise price per share***	Number of underlying shares comprised in share options	Weighted average exercise price per share*
		HK$		HK$
Outstanding at beginning of year	**536,205,994**	**0.212**	539,205,994	0.212
Exercised during the year	**(30,000,000)**	**0.133**	—	—
Lapsed during the year	**(3,000,000)**	**0.228**	(3,000,000)	0.190
Outstanding at end of year	**503,205,994**	**0.216**	536,205,994	0.212

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.

The weighted average closing price of the Company's shares immediately before and at the dates of exercise of share options during the year was HK$0.170 and HK$0.168 per share, respectively.

Other than the exercise of share options comprising 30,000,000 underlying shares and the lapse of share options comprising 3,000,000 underlying shares, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the 2003 Share Option Scheme and 2012 Share Option Scheme during the year.

As at 31 July 2017, a total of 503,205,994 underlying shares comprised in share options were outstanding, of which 50,479,564 underlying shares relate to a share option granted under the 2003 Share Option Scheme and 452,726,430 underlying shares relate to share options granted under the 2012 Share Option Scheme, represented approximately 0.3% and 2.8% of the Company's shares in issue, respectively, as at that date.

As at 31 July 2017, the adjusted outstanding number of underlying shares comprised in share options and the adjusted weighted average exercise price per share of the Company were 10,064,117 (2016: 10,724,117) and HK$10.821 (2016: HK$10.591), respectively, after considering the effect of the Share Consolidation.

32. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 99 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, the subsidiaries and the joint venture of the Company, which are registered in the PRC, are required to transfer a certain percentage of their net profit after tax (after offsetting any prior years' losses, if any) to statutory reserve funds which are restricted as to use, until the balance of the statutory reserve funds reaches 50% of their respective registered capital.

33. Notes to the Consolidated Statement of Cash Flows

Acquisition of non-controlling interests

On 3 November 2015, Hankey Development Limited ("**Hankey**"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with 上海匯貢經濟發展總公司 ("**上海匯貢**") to acquire 上海匯貢's interest in 1% of the registered capital of Shanghai Hankey Real Estate Development Company Limited ("**Shanghai Hankey**"), which directly holds Northgate Plaza I. The transaction was completed on 18 March 2016. Shanghai Hankey was an indirect 99%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

On 3 February 2016, Hankey entered into an agreement with 上海北城綜合經營部 ("**上海北城**") to acquire 上海北城's interest in 1% of the registered capital of Shanghai Zhabei, which directly holds Northgate Plaza II. The transaction was completed on 18 March 2016. Shanghai Zhabei was an indirect 99%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

The following summarised the effect of the changes in the Group's ownership interest on the equity attributable to owners of the Company:

	2017 **HK$'000**	2016 HK$'000
Considerations paid for acquisition of non-controlling interests	—	16,745
Decrease in non-controlling interests	—	(9,412)
Decrease in equity attributable to owners of the Company	—	7,333

34. Contingent Liabilities

The Group has provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of property units developed by the Group. Pursuant to the 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 end-buyers in default. The Group's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the property ownership certificates for the relevant properties are issued and/or the end-buyers have fully repaid the mortgage loans. As at 31 July 2017, in respect of these guarantees, the contingent liabilities of the Group amounted to approximately HK$596,225,000 (2016: HK$666,669,000).

35. Operating Lease Arrangements

(a) As lessor

Certain properties of the Group were leased under operating lease arrangements with lease terms up to twenty years (2016: twenty years). The terms of the leases generally require the tenants to pay security deposits.

As at 31 July 2017, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**500,314**	457,842
In the second to fifth years, inclusive	**980,614**	957,570
After five years	**223,539**	260,036
	1,704,467	1,675,448

In addition, the operating lease arrangements for certain investment properties of the Group are contingent based on the turnover of the tenants pursuant to the terms and conditions as set out in the respective agreements. As the future turnover of the tenants could not be accurately determined, the relevant contingent rent has not been included above.

35. Operating Lease Arrangements (continued)

(b) As lessee

The Group leased certain office properties under operating lease arrangements with lease terms up to two years (2016: two years).

As at 31 July 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**1,377**	1,829
In the second to fifth years, inclusive	**123**	582
	1,500	2,411

36. Commitments

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments as at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Construction and development costs	**2,697,150**	439,578
Consideration for acquisition of an investment property	**—**	187,053
	2,697,150	626,631

37. Pledge Of Assets

Details of the Group's bank loans and fixed rate senior notes, which were secured by certain assets of the Group, are included in notes 25 and 28 to the financial statements, respectively.

38. 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

	Notes	**2017 HK$'000**	2016 HK$'000
Lai Sun Garment (International) Limited ("**LSG**") and its subsidiaries:			
Rental and management fee expenses paid or payable	(i)	**2,618**	2,349
Rental and management fee income received or receivable	(ii)	**64**	69
Tax indemnity received	(iii)	**493,936**	—
Sharing of corporate salaries on a cost basis allocated from		**20,507**	20,205
Sharing of administrative expenses on a cost basis allocated from		**2,864**	3,260
Sharing of corporate salaries on a cost basis allocated to		**2,990**	2,083
Sharing of administrative expenses on a cost basis allocated to		**566**	449

38. Related Party Transactions (continued)

(a) Transactions with related parties (continued)

	Notes	2017 HK$'000	2016 HK$'000
eSun and its subsidiaries excluding the Group:			
Rental and management fee income received or receivable	(iv)	**8,231**	8,482
Advance of loans received	(v)	**27,888**	62,051
Repayment of loans	(v)	**29,000**	56,000
Sharing of corporate salaries on a cost basis allocated from		**2,093**	2,210
Sharing of administrative expenses on a cost basis allocated from		**120**	190
Sharing of corporate salaries on a cost basis allocated to		**820**	1,031
Sharing of administrative expenses on a cost basis allocated to		**26**	31
A subsidiary of CapitaLand Limited:			
Management and other service fees paid or payable	(vi)	**8,698**	9,444
Joint ventures of the Group			
Advance of loans received	(vii)	**609,490**	222,430
Advance of loans repaid	(vii)	**342,143**	—
Repayment of loans received/(advances of loans)		**(60)**	50,031
Interest expenses paid or payable	(vii)	**25,668**	15,138

38. Related Party Transactions (continued)

(a) Transactions with related parties (continued)

Notes:

(i) The related companies are LSD and a subsidiary of LSD, which are the subsidiaries of LSG. eSun, an associate of LSD, is the ultimate holding company of the Company. The Company is therefore also an associate of LSD. The terms of the rental and management fee were determined based on the agreements entered into between the Group and the related companies.

(ii) The related company is a subsidiary of LSD. The terms of the rental and management fee were determined based on the agreements entered into between the Group and the related company.

(iii) The related company is LSD and further details of this transaction are set out in note 10(b) to the financial statements.

(iv) The related companies are subsidiaries of eSun where the Company does not hold, directly or indirectly, any equity interest in the related companies. The terms of the rental and management fee were determined based on the agreements entered into between the Group and the related companies.

(v) The related company is a subsidiary of eSun where the Company does not hold, directly or indirectly, any equity interest in the related company. The terms of the loans are set out in note 27 to the financial statements.

(vi) The related company is a subsidiary of CapitaLand Limited and the Company is an associate of CapitaLand Limited. The related company provides management and other services on the serviced apartment operation of the Group. The terms of the management and other service fees were determined based on the agreement entered into between the Group and the related company.

(vii) The related party is a joint venture of the Group, Guangzhou Beautiwin. The terms of the loans are determined based on the agreements entered into between the Group and Guangzhou Beautiwin and set out in note 18 to the financial statements.

Certain of the above related party transactions also constitute connected transactions or continuing connected transactions as defined in chapter 14A of the Listing Rules and their details are disclosed in the Report of the Directors.

(b) Outstanding balances with related parties

Details of the loans from a joint venture, advances from a former substantial shareholder of the Company and loans from a fellow subsidiary are included in notes 18, 26 and 27 to the financial statements, respectively.

(c) Guarantees provided by a related party

eSun, which is the Company's ultimate holding company, provided guarantees for 20% (being eSun's equity interest in the relevant borrowers excluding the remaining 80% interest held via the Group) of the outstanding balances of certain bank loan facilities of up to HK$2,696,065,000 (2016: HK$2,753,623,000) in aggregate granted to certain subsidiaries of the Company as borrowers.

38. Related Party Transactions (continued)

(d) Compensation of key management personnel of the Group

	2017 HK$'000	2016 HK$'000
Short term employee benefits	**25,365**	24,715
Pension scheme contributions	**129**	129
Total	**25,494**	24,844

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

39. Financial Instruments by Category

Financial assets

The Group's financial assets as at 31 July 2017 and 2016 were categorised as loans and receivables.

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
2017			
Creditors and accruals	**—**	**863,712**	**863,712**
Deposits received	**—**	**165,749**	**165,749**
Interest-bearing bank loans, secured	**—**	**2,896,093**	**2,896,093**
Loans from a joint venture	**—**	**842,510**	**842,510**
Advances from a former substantial shareholder	**—**	**54,143**	**54,143**
Loans from a fellow subsidiary	**—**	**218,279**	**218,279**
Fixed rate senior notes	**—**	**2,080,366**	**2,080,366**
Derivative financial instruments	**208,223**	**—**	**208,223**
	208,223	**7,120,852**	**7,329,075**

39. Financial Instruments by Category (continued)

Financial liabilities (continued)

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
2016			
Creditors and accruals	—	695,752	695,752
Deposits received	—	142,163	142,163
Interest-bearing bank loans, secured	—	3,035,518	3,035,518
Loans from a joint venture	—	572,758	572,758
Advances from a former substantial shareholder	—	54,675	54,675
Loans from a fellow subsidiary	—	221,714	221,714
Fixed rate senior notes	—	2,092,741	2,092,741
Derivative financial instruments	210,068	—	210,068
	210,068	6,815,321	7,025,389

40. Fair Values and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 July 2017 HK$'000	31 July 2016 HK$'000	**31 July 2017 HK$'000**	31 July 2016 HK$'000
Financial liabilities				
Derivative financial instruments	**208,223**	210,068	**208,223**	210,068
Fixed rate senior notes	**2,080,366**	2,092,741	**2,090,492**	2,097,984
	2,288,589	2,302,809	**2,298,715**	2,308,052

Each year, the Group's management appoints external valuers to be responsible for the external valuations of the Group's derivative financial instruments (the "**Financial Instrument Valuers**"). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the Financial Instrument Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

40. Fair Values and Fair Value Hierarchy of Financial Instruments (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(i) The fair values of fixed rate senior notes are based on quoted market prices; and

(ii) Derivative financial instruments, being the cross currency swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot rates and interest rate curves. The carrying amounts of the derivative financial instruments are the same as their fair values.

Other than the above financial liabilities, the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 July 2017 and 31 July 2016.

Fair value hierarchy

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

2017

	Valuation techniques	**Significant unobservable inputs**	**Value of unobservable inputs**	**Notes**
Derivative financial instruments — CCS	Discounted cash flow with swaption approach	Expected exposure at default — counterparty	HK$0.00 to HK$460.53	1
		Expected exposure at default — the Company	HK$107.41 million to HK$107.76 million	2
		Credit spread — counterparty	10.33 basis point to 116.82 basis point	3
		Credit spread — the Company	372.67 basis point to 661.30 basis point	4
		Loss given default ratio — counterparty non-performance risk	80%	5
		Loss given default ratio — own credit risk	60%	6

2016

	Valuation techniques	Significant unobservable inputs	Value of unobservable inputs	Notes
Derivative financial instruments — CCS	Discounted cash flow with swaption approach	Expected exposure at default — counterparty	HK$0.00 to HK$4.97 million	1
		Expected exposure at default — the Company	HK$114.77 million to HK$121.22 million	2
		Credit spread — counterparty	10.91 basis point to 230 basis point	3
		Credit spread — the Company	377.37 basis point to 715.13 basis point	4
		Loss given default ratio — counterparty non-performance risk	80%	5
		Loss given default ratio — own credit risk	60%	6

40. Fair Values and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy (continued)

Notes:

1. The higher the expected exposure at default — counterparty, the lower the fair value of CCS
2. The higher the expected exposure at default — the Company, the higher the fair value of CCS
3. The higher the credit spread — counterparty, the lower the fair value of CCS
4. The higher the credit spread — the Company, the higher the fair value of CCS
5. The higher the loss given default ratio — counterparty, the lower the fair value of CCS
6. The higher the loss given default ratio — the Company, the higher the fair value of CCS

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value

As at 31 July 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	—	—	**208,223**	**208,223**

As at 31 July 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	—	—	210,068	210,068

The Group did not have any financial assets measured at fair value as at 31 July 2017 and 31 July 2016.

During the years ended 31 July 2017 and 31 July 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. The movement in the financial liabilities arising from the CCS is disclosed in note 24 to the financial statements.

40. Fair Values and Fair Value Hierarchy of Financial Instruments (continued)

Liabilities for which fair values are disclosed

The Group's financial liabilities for which fair values are disclosed include fixed rate senior notes, fair value of which are based on quoted market prices and are categorised in Level 1.

41. Financial Risk Management Objectives and Policies

The principal financial assets held by the Group comprise pledged and restricted time deposits and bank balances and cash and cash equivalents. Management will, based on the Group's projected cash flow requirements, determine the types and the levels of these financial assets with a view to maintaining an appropriate level of fundings for the Group's operations and enhancing the returns generated from these financial assets. The Group's principal financial liabilities are bank loans and fixed rate senior notes.

The Group will procure various types and levels of such financial liabilities in order to maintain sufficient fundings for the Group's daily operations and to cope with expenditures incurred for various properties under development for sale or investment purposes. In addition, the Group has various other financial assets and liabilities such as debtors and creditors which arise directly from its daily operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. Management of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group adopts relatively conservative strategies on its risk management. During the year ended 31 July 2013, the Group entered into cross currency swap agreements to manage the foreign currency risk arising from the Group's fixed rate senior notes. The Group does not hold or issue derivative financial instruments for trading purposes.

The policies are summarised as follows:

(a) Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in RMB, US$ and HK$. The Group, with HK$ as its presentation currency, is exposed to foreign currency risk arising from the exposure of HK$ against US$ and RMB, respectively. Considering that HK$ is pegged against US$, the Group believes that the corresponding exposure to US$ exchange rate fluctuation is nominal. However, the Group has a net exchange exposure to RMB as the Group's assets are principally located in Mainland China and the revenues are predominantly in RMB.

The Group entered into CCS in respect of the 2013 Notes to minimise the foreign currency exposures as detailed in note 24 to the financial statements. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider other appropriate hedging measures in future as may be necessary.

41. Financial Risk Management Objectives and Policies (continued)

(a) Foreign currency risk (continued)

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the post-tax profit and equity (due to changes in the fair value of monetary assets and liabilities) of the Group.

	Change in exchange rate	Impact on post-tax profit HK$'000	Impact on equity * HK$'000
2017			
If US$/HK$ weakens against RMB	**5%**	**5,177**	**1,749**
If US$/HK$ strengthens against RMB	**5%**	**(4,686)**	**(1,588)**
2016			
If US$/HK$ weakens against RMB	5%	9,287	3,165
If US$/HK$ strengthens against RMB	5%	(8,402)	(2,891)

* excluding amounts attributable to non-controlling interests

(b) 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 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.

(b) Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the post-tax profit (through the impact on floating rate borrowings, net of amounts capitalised to properties under development, investment properties under construction and construction in progress) and the equity of the Group.

	Change in interest rate	Impact on post-tax profit HK$'000	Impact on equity * HK$'000
2017			
	+0.25%	**(4,530)**	**(4,530)**
	-0.25%	**4,530**	**4,530**
2016			
	+0.25%	(4,800)	(4,800)
	-0.25%	4,800	4,800

* excluding amounts attributable to non-controlling interests

(c) Liquidity risk

The Group monitors its risk of a shortage of funds by regularly reviewing its cash flow forecast. The cash flow forecast considers the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

41. Financial Risk Management Objectives and Policies (continued)

(c) Liquidity risk (continued)

The maturity profile of the financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2017				
Creditors and accruals	**863,712**	**—**	**—**	**863,712**
Deposits received	**25,509**	**140,240**	**—**	**165,749**
Interest-bearing bank loans, secured	**207,803**	**2,708,583**	**94,043**	**3,010,429**
Loans from a joint venture	**219,928**	**673,418**	**—**	**893,346**
Advances from a former substantial shareholder	**—**	**54,143**	**—**	**54,143**
Loans from a fellow subsidiary	**—**	**218,279**	**—**	**218,279**
Fixed rate senior notes	**2,192,319**	**—**	**—**	**2,192,319**
Inflows of derivative financial instruments	**(2,192,319)**	**—**	**—**	**(2,192,319)**
Outflows of derivative financial instruments	**2,365,136**	**—**	**—**	**2,365,136**
	3,682,088	**3,794,663**	**94,043**	**7,570,794**
2016				
Creditors and accruals	695,752	—	—	695,752
Deposits received	17,774	124,389	—	142,163
Interest-bearing bank loans, secured	428,747	3,029,817	136,512	3,595,076
Loans from a joint venture	362,766	234,340	—	597,106
Advances from a former substantial shareholder	—	54,675	—	54,675
Loans from a fellow subsidiary	—	221,714	—	221,714
Fixed rate senior notes	144,872	2,213,877	—	2,358,749
Inflows of derivative financial instruments	(144,872)	(2,213,877)	—	(2,358,749)
Outflows of derivative financial instruments	138,831	2,365,136	—	2,503,967
	1,643,870	6,030,071	136,512	7,810,453

The Group is also exposed to liquidity risk through the granting of financial guarantees, further details of which are disclosed in note 34 to the financial statements. The earliest period in which the guarantees could be called is less than 12 months.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Credit risk

The Group maintains various credit policies for different business operations as described in note 20. In addition, trade debtor balances are being closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

(e) Capital management

The Group manages its capital structure to ensure that the Group will be able to continue to operate as a going concern while maximising the return to stakeholders through the setting up and maintenance of an optimal debt and equity capital structure. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group mainly consists of fixed rate senior notes, bank and other borrowings, and equity attributable to owners of the Company comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. They will take into consideration the cost of capital and the risks associated with each class of capital prevailing in the market. Based on recommendations of the directors, the Group will balance its overall capital structure through various types of equity fund raising exercises as well as maintaining of appropriate types and levels of debts.

41. Financial Risk Management Objectives and Policies (continued)

(e) Capital management (continued)

The Group monitors capital using, inter alia, a gearing ratio which is net debt divided by net assets attributable to owners of the Company. Net debt includes interest-bearing bank loans, advances from a former substantial shareholder, fixed rate senior notes, loans from a fellow subsidiary and loans from a joint venture, less pledged and restricted time deposits and bank balances and cash and cash equivalents. The gearing ratio as at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
Interest-bearing bank loans, secured	**2,896,093**	3,035,518
Advances from a former substantial shareholder	**54,143**	54,675
Fixed rate senior notes	**2,080,366**	2,092,741
Loans from a fellow subsidiary	**218,279**	221,714
Loans from a joint venture	**842,510**	572,758
Less:		
Pledged and restricted time deposits and bank balances	**(571,022)**	(1,066,374)
Cash and cash equivalents	**(2,057,346)**	(2,546,240)
Net debt	**3,463,023**	2,364,792
Net assets attributable to owners of the Company	**14,584,111**	13,314,767
Gearing ratio	**24%**	18%

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**9,662,468**	9,580,944
CURRENT ASSETS		
Deposits and prepayments	**5,462**	5,450
Pledged bank balance	**24,860**	31,458
Cash and cash equivalents	**117,107**	248,946
Total current assets	**147,429**	285,854
CURRENT LIABILITIES		
Creditors and accruals	**45,834**	47,063
Due to subsidiaries	**390**	390
Interest-bearing bank loan, secured	**40,860**	168,295
Fixed rate senior notes	**2,080,366**	—
Derivative financial instruments	**208,223**	—
Total current liabilities	**2,375,673**	215,748
NET CURRENT ASSETS/(LIABILITIES)	**(2,228,244)**	70,106
TOTAL ASSETS LESS CURRENT LIABILITIES	**7,434,224**	9,651,050
NON-CURRENT LIABILITIES		
Interest-bearing bank loan, secured	**843,244**	1,167,292
Fixed rate senior notes	**—**	2,092,741
Derivative financial instruments	**—**	210,068
Total non-current liabilities	**843,244**	3,470,101
	6,590,980	6,180,949
EQUITY		
Issued capital	**1,628,509**	1,619,770
Reserves (note)	**4,962,471**	4,561,179
	6,590,980	6,180,949

42. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Hedge reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 August 2015		4,068,087	29,594	(9,558)	(6,656)	283,293	4,364,760
Profit for the year		—	—	—	—	201,418	201,418
Release of reserve upon lapse of share options		—	(170)	—	—	170	—
Shares issued in lieu of cash dividend	30	1,170	—	—	—	—	1,170
Net gain on cash flow hedges	24	—	—	—	47,059	—	47,059
Final 2015 dividend paid		—	—	—	—	(53,228)	(53,228)
As at 31 July 2016 and 1 August 2016		4,069,257	29,424	(9,558)	40,403	431,653	4,561,179
Profit for the year		—	—	—	—	487,317	487,317
Issue of shares upon exercise of share options	30	2,361	(1,371)	—	—	—	990
Release of reserve upon lapse of share options		—	(170)	—	—	170	—
Shares issued in lieu of cash dividend	30	3,639	—	—	—	—	3,639
Net loss on cash flow hedges	24	—	—	—	(32,234)	—	(32,234)
Final 2016 dividend paid		—	—	—	—	(58,420)	(58,420)
As at 31 July 2017		4,075,257	27,883	(9,558)	8,169	860,720	4,962,471

43. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Canvex Limited	Hong Kong	HK$2	—	100	Property investment
Eastern Power Limited	Hong Kong	HK$1	—	100	Investment holding
Eternal Medal Limited	Hong Kong	HK$1	—	100	Investment holding
Fore Bright Limited	Hong Kong	HK$1	—	100	Investment holding
Frank Light Development Limited	Hong Kong	HK$19,999,999	—	100	Investment holding

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Gentle Code Limited	Hong Kong	HK$1	—	100	Investment holding
Gentle Holdings Limited	Hong Kong	HK$1	—	100	Investment holding
Goldthorpe Limited *	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Good Strategy Limited	British Virgin Islands/ Mainland China	US$1	—	100	Property investment
Grand Wealth Limited	Hong Kong	HK$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Guangzhou Gentle Code Real Estate Company Limited @ *	PRC/ Mainland China	US$22,830,000##	—	100	Property investment
Guangzhou Gentle Real Estate Company Limited @ *	PRC/ Mainland China	US$17,080,000##	—	100	Property development
Guangzhou Grand Wealth Properties Limited µ *	PRC/ Mainland China	HK$280,000,000##	—	100	Property development and investment
Guangzhou Guang Bird Property Development Limited ("**Guangzhou Guang Bird**") µ *	PRC/ Mainland China	US$79,600,000##	—	100	Property development and investment
Guangzhou Honghui Real Estate Development Company Limited µ *	PRC/ Mainland China	RMB79,733,004##	—	100	Property development and investment
Guangzhou Jadepress Real Estate Company Limited @ *	PRC/ Mainland China	US$19,150,000##	—	100	Property development and investment
Guangzhou Jieli Real Estate Company Limited @ *	PRC/ Mainland China	HK$168,000,000##	—	100	Property investment
Hankey Development Limited	Hong Kong	HK$10,000	—	100	Investment holding
Jadepress Limited	Hong Kong	HK$1	—	100	Investment holding

Notes to Financial Statements

31 July 2017

43. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Kingscord Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Lai Fung Company Limited	Hong Kong	HK$20	100	—	Investment holding
Manful Concept Limited	Hong Kong	HK$2	—	100	Investment holding
Nicebird Company Limited	Hong Kong	HK$2	—	100	Investment holding
Pearl Merge Limited	Hong Kong	HK$1	—	80	Investment holding
Rosy Commerce Holdings Limited (Note)	British Virgin Islands/ Hong Kong	US$100	—	80	Investment holding
Shanghai Hankey Real Estate Development Company Limited ("**Shanghai Hankey**") @	PRC/ Mainland China	US$47,600,000##	—	100	Property investment
Shanghai HKP Property Management Limited @ *	PRC/ Mainland China	US$150,000##	—	100	Property management
Shanghai Hu Xin Real Estate Development Company Limited @	PRC/ Mainland China	US$40,000,000##	—	100	Property development and investment
Shanghai Li Xing Real Estate Development Company Limited @ *	PRC/ Mainland China	US$36,000,000##	—	100	Property investment
Shanghai Wa Yee Real Estate Development Company Limited # *	PRC/ Mainland China	US$10,000,000##	70	25	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Company Limited ("**Shanghai Zhabei**") @	PRC/ Mainland China	US$79,800,000##	—	100	Property investment
Sunlite Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Wide Angle Development Limited	Hong Kong	HK$2	—	100	Investment holding

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Winfield Concept Limited	Hong Kong	HK$1	—	80	Investment holding
Win Merge Limited	Hong Kong	HK$1	—	80	Investment holding
Zhongshan Bao Li Properties Development Company Limited @ *	PRC/ Mainland China	HK$460,000,000##	—	100	Property development and investment
廣州高樂物業管理有限公司 Ø *	PRC/ Mainland China	RMB1,100,000##	—	100	Property management
上海麗港物業管理有限公司 Ø *	PRC/ Mainland China	RMB500,000##	—	100	Property management
上海麗星房地產發展有限公司 @ *	PRC/ Mainland China	RMB630,000,000##	—	100	Property development
中山高樂物業管理有限公司 Ø *	PRC/ Mainland China	RMB500,000##	—	100	Property management
珠海橫琴麗新文創天地有限公司 (「**麗新文創**」) @ *	PRC/ Mainland China	RMB1,900,000,000##	—	80	Property development and investment
珠海橫琴創新方娛樂有限公司 (「**創新方娛樂**」) @ *	PRC/ Mainland China	RMB450,000,000##	—	80	Development and operation of and investment in cultural, leisure, entertainment and related facilities
珠海橫琴創新方文化創意有限公司 (「**創新方文化**」) @ *	PRC/ Mainland China	RMB52,000,000##	—	80	Development and operation of and investment in cultural, leisure, entertainment and related facilities

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

* Subsidiaries whose statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

µ Registered as co-operative joint ventures under the laws of the PRC

Registered as equity joint ventures under the laws of the PRC

The registered capital of these subsidiaries were fully paid up, except for Guangzhou Guang Bird, Shanghai Hankey, Shanghai Zhabei, 麗新文創, 創新方娛樂 and 創新方文化 which capital of approximately US$13,247,000 (equivalent to approximately HK$103,459,000), US$26,000,000 (equivalent to approximately HK$203,060,000), US$43,800,000 (equivalent to approximately HK$342,078,000), RMB760,000,000 (equivalent to approximately HK$881,057,000), RMB376,000,000 (equivalent to approximately HK$435,891,000) and RMB49,000,000 (equivalent to approximately HK$56,805,000), respectively was unpaid as at 31 July 2017. Subsequent to 31 July 2017, the registered capital of 創新方娛樂 of RMB10,000,000 (equivalent to approximately HK$11,865,000) has been paid up.

@ Registered as wholly-foreign-owned enterprises under the laws of the PRC

ø Registered as domestic enterprises under the laws of the PRC

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.

Note:

The Company, through its wholly-owned subsidiaries, held 80% equity interest in Rosy Commerce Holdings Limited and its subsidiaries (collectively referred to as "**Rosy Commerce Group**").

The non-controlling interest, which held equity interest of 20% in Rosy Commerce Group, was considered material to the Group. The profit of Rosy Commerce Group allocated to the non-controlling interest amounted to HK$109,578,000 (2016: HK$18,610,000) for the year ended 31 July 2017 and the accumulated non-controlling interest of Rosy Commerce Group amounted to HK$112,280,000 (2016: HK$3,219,000) as at 31 July 2017.

43. Particulars of Principal Subsidiaries (continued)

Note (continued):

The following tables illustrate the summarised financial information of Rosy Commerce Group. The amounts disclosed are before any inter-company eliminations:

	2017 HK$'000	2016 HK$'000
Current assets	**710,670**	507,426
Non-current assets	**2,373,513**	1,103,278
Total assets	**3,084,183**	1,610,704
Current liabilities	**(363,125)**	(93,955)
Non-current liabilities	**(2,159,683)**	(1,500,683)
Total liabilities	**(2,522,808)**	(1,594,638)
Turnover	**—**	—
Fair value gains on investment properties	**719,294**	34,377
Profit for the year	**547,892**	93,050
Other comprehensive expenses, net of tax	**(2,584)**	(68,747)
Total comprehensive income for the year	**545,308**	24,303
Dividends paid to non-controlling interests	**—**	—
Net cash flows used in operating activities	**(249,714)**	(208,249)
Net cash flows used in investing activities	**(172,490)**	(193,165)
Net cash flows from financing activities	**453,468**	413,803
Net cash inflow	**31,264**	12,389

44. Particulars of Joint Ventures

Particulars of the Group's material joint ventures as at 31 July 2017 are as follows:

Name	Place of incorporation/ registration and business	Class of shares held	Percentage of ownership interests attributable to the Group	Principal activities
Beautiwin Limited	Hong Kong	Ordinary	50	Investment holding
Guangzhou Beautiwin Real Estate Development Company Limited ("**Guangzhou Beautiwin**") **	PRC/ Mainland China	— *	47.5	Property development

* This joint venture has registered capital rather than issued share capital.

** The statutory financial statements of this joint venture were not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The Company, through its wholly-owned subsidiaries, owns 50% equity interest in Beautiwin Limited, which in turn, owns 95% equity interest in Guangzhou Beautiwin. Accordingly, the Group effectively owns 50% and 47.5% equity interest in Beautiwin Limited and Guangzhou Beautiwin, respectively.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 19 October 2017.

Independent Auditors' Report

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

We have audited the consolidated financial statements of Lai Fung Holdings Limited (the "**Company**") and its subsidiaries set out on pages 79 to 168, which comprise the consolidated statement of financial position as at 31 July 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 July 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

19 October 2016

Consolidated Income Statement

Year ended 31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
TURNOVER	5	**2,043,530**	1,901,394
Cost of sales		**(954,724)**	(864,887)
Gross profit		**1,088,806**	1,036,507
Other income and gains	5	**133,476**	142,686
Selling and marketing expenses		**(61,498)**	(54,273)
Administrative expenses		**(289,680)**	(289,724)
Other operating expenses, net		**(124,930)**	(73,862)
Fair value losses on cross currency swaps	23	**—**	(86,492)
Fair value gains on investment properties	15	**528,015**	948,654
PROFIT FROM OPERATING ACTIVITIES	7	**1,274,189**	1,623,496
Finance costs	6	**(156,356)**	(199,067)
Share of profits of joint ventures		**167,752**	154,817
PROFIT BEFORE TAX		**1,285,585**	1,579,246
Tax	10	**(388,163)**	(571,197)
PROFIT FOR THE YEAR		**897,422**	1,008,049
ATTRIBUTABLE TO:			
Owners of the Company		**873,527**	1,004,901
Non-controlling interests		**23,895**	3,148
		897,422	1,008,049
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY:	12		
Basic		**HK$0.054**	HK$0.062
Diluted		**HK$0.054**	HK$0.062

Consolidated Statement of Comprehensive Income

Year ended 31 July 2016

	Note	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR		**897,422**	1,008,049
OTHER COMPREHENSIVE INCOME/(EXPENSES) TO BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT PERIODS, NET OF TAX			
Reversal of impairment of investment properties under construction		**—**	6,353
Exchange differences arising on translation to presentation currency		**(987,871)**	(147,834)
Share of other comprehensive expenses of joint ventures		**(52,223)**	(7,677)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	23	**(88,697)**	—
Reclassification adjustments for exchange gain included in the consolidated income statement		**135,756**	—
		47,059	—
		(993,035)	(149,158)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR		**(95,613)**	858,891
ATTRIBUTABLE TO:			
Owners of the Company		**(98,997)**	859,079
Non-controlling interests		**3,384**	(188)
		(95,613)	858,891

Consolidated Statement of Financial Position

31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,450,871**	1,326,096
Prepaid land lease payments	16	**4,623**	5,115
Investment properties	15	**14,661,728**	14,479,603
Properties under development	14	**1,184,375**	1,617,398
Investments in joint ventures	18	**804,431**	739,028
Deposit for acquisition of an investment property	17	**228,620**	—
Total non-current assets		**18,334,648**	18,167,240
CURRENT ASSETS			
Properties under development	14	**791,844**	278,459
Completed properties for sale		**503,187**	1,341,754
Debtors, deposits and prepayments	19	**367,068**	327,379
Prepaid tax		**32,575**	36,254
Pledged and restricted time deposits and bank balances	20	**1,066,374**	1,292,830
Cash and cash equivalents	20	**2,546,240**	1,571,281
		5,307,288	4,847,957
Asset classified as held for sale	21	**257,666**	265,432
Total current assets		**5,564,954**	5,113,389
CURRENT LIABILITIES			
Creditors and accruals	22	**797,512**	650,843
Deposits received and deferred income		**596,367**	220,549
Interest-bearing bank loans, secured	24	**287,548**	2,487,367
Loans from a joint venture	18	**350,328**	372,897
Tax payable		**399,326**	339,194
Total current liabilities		**2,431,081**	4,070,850
NET CURRENT ASSETS		**3,133,873**	1,042,539
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,468,521**	19,209,779
NON-CURRENT LIABILITIES			
Long-term deposits received		**124,389**	103,369
Interest-bearing bank loans, secured	24	**2,747,970**	533,780
Advances from a former substantial shareholder	25	**54,675**	58,198
Loans from a fellow subsidiary	26	**221,714**	229,244
Loan from a joint venture	18	**222,430**	—
Fixed rate senior notes	27	**2,092,741**	2,220,914
Derivative financial instruments	23	**210,068**	111,654
Deferred tax liabilities	28	**2,406,920**	2,407,392
Total non-current liabilities		**8,080,907**	5,664,551
		13,387,614	13,545,228

Consolidated Statement of Financial Position

31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**1,619,770**	1,612,968
Reserves	31	**11,694,997**	11,853,385
		13,314,767	13,466,353
Non-controlling interests		**72,847**	78,875
		13,387,614	13,545,228

Chew Fook Aun
Director

Lam Hau Yin, Lester
Director

Consolidated Statement of Changes in Equity

Year ended 31 July 2016

		Attributable to owners of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Share option reserve HK$'000	Hedge reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
1 August 2014		1,610,190	4,066,482	66,609	29,677	(6,656)	1,994,853	155,496	173,403	4,573,380	12,663,434	130,871	12,794,305
Profit for the year		—	—	—	—	—	—	—	—	1,004,901	1,004,901	3,148	1,008,049
Other comprehensive income/(expenses) for the year, net of tax:													
Reversal of impairment of investment properties under construction		—	—	6,289	—	—	—	—	—	—	6,289	64	6,353
Exchange differences arising on translation to presentation currency		—	—	(3,939)	—	—	(140,495)	—	—	—	(144,434)	(3,400)	(147,834)
Share of other comprehensive expenses of joint ventures		—	—	—	—	—	(7,677)	—	—	—	(7,677)	—	(7,677)
Total comprehensive income/(expenses) for the year, net of tax		—	—	2,350	—	—	(148,172)	—	—	1,004,901	859,079	(188)	858,891
Acquisition of additional interests in subsidiaries from non-controlling shareholders	32	—	—	—	—	—	—	(10,998)	—	—	(10,998)	(51,808)	(62,806)
Equity-settled share option arrangements		—	—	—	371	—	—	—	—	—	371	—	371
Release of reserve upon lapse of share options		—	—	—	(454)	—	—	—	—	454	—	—	—
Transfer to statutory reserve		—	—	—	—	—	—	—	37,414	(37,414)	—	—	—
Share of statutory reserve of joint ventures		—	—	—	—	—	—	—	18,770	(18,770)	—	—	—
Shares issued in lieu of cash dividend	29	2,778	1,605	—	—	—	—	—	—	—	4,383	—	4,383
Final 2014 dividend paid		—	—	—	—	—	—	—	—	(49,916)	(49,916)	—	(49,916)
As at 31 July 2015 and 1 August 2015		1,612,968	4,068,087	68,959	29,594	(6,656)	1,846,681	144,498	229,587	5,472,635	13,466,353	78,875	13,545,228
Profit for the year		—	—	—	—	—	—	—	—	873,527	873,527	23,895	897,422
Other comprehensive income/(expenses) for the year, net of tax:													
Exchange differences arising on translation to presentation currency		—	—	—	—	—	(967,360)	—	—	—	(967,360)	(20,511)	(987,871)
Share of other comprehensive expenses of joint ventures		—	—	—	—	—	(52,223)	—	—	—	(52,223)	—	(52,223)
Net gain on cash flow hedges	23	—	—	—	—	47,059	—	—	—	—	47,059	—	47,059
Total comprehensive income/(expenses) for the year, net of tax		—	—	—	—	47,059	(1,019,583)	—	—	873,527	(98,997)	3,384	(95,613)
Acquisition of additional interests in subsidiaries from non-controlling shareholders	32	—	—	—	—	—	—	(7,333)	—	—	(7,333)	(9,412)	(16,745)
Release of reserve upon lapse of share options		—	—	—	(170)	—	—	—	—	170	—	—	—
Share of statutory reserve of joint ventures		—	—	—	—	—	—	—	11,810	(11,810)	—	—	—
Shares issued in lieu of cash dividend	29	6,802	1,170	—	—	—	—	—	—	—	7,972	—	7,972
Final 2015 dividend paid		—	—	—	—	—	—	—	—	(53,228)	(53,228)	—	(53,228)
As at 31 July 2016		**1,619,770**	**4,069,257***	**68,959***	**29,424***	**40,403***	**827,098***	**137,165***	**241,397***	**6,281,294***	**13,314,767**	**72,847**	**13,387,614**

* *These reserve accounts comprise the consolidated reserves of HK$11,694,997,000 (2015: HK$11,853,385,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,285,585**	1,579,246
Adjustments for:			
Fair value gains on investment properties	15	**(528,015)**	(948,654)
Finance costs	6	**156,356**	199,067
Share of profits of joint ventures		**(167,752)**	(154,817)
Interest income	5	**(15,339)**	(20,621)
Depreciation	7	**71,201**	74,252
Amortisation of prepaid land lease payments	7	**186**	195
Foreign exchange differences, net	7	**24,513**	(31,863)
Impairment of asset classified as held for sale	7	**—**	33,177
Loss on return of land use right to the local authority	7	**19,929**	—
Loss on disposal of items of property, plant and equipment	7	**99**	145
Equity-settled share option expense		**—**	123
Fair value losses on cross currency swaps	23	**—**	86,492
Ineffective portion of the effective hedge recognised in profit or loss	7	**9,717**	—
Write-down of completed properties for sale to net realisable value	7	**3,485**	7,436
Impairment of goodwill		**—**	426
		859,965	824,604
Decrease in completed properties for sale		**736,590**	714,516
Additions to properties under development		**(361,549)**	(1,250,582)
Increase in debtors, deposits and prepayments		**(47,942)**	(165,118)
Additions to asset classified as held for sale		**(8,299)**	—
Increase in creditors and accruals, and short term deposits received and deferred income		**380,860**	33,727
Increase in long term deposits received		**21,020**	10,805
Proceeds from return of land use right to the local authority		**247,149**	—
Cash generated from operations		**1,827,794**	167,952
Mainland China taxes paid, net		**(156,708)**	(169,156)
Net cash flow from/(used in) operating activities		**1,671,086**	(1,204)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**15,339**	20,621
Purchases of items of property, plant and equipment		**(70,539)**	(33,118)
Additions to investment properties		**(476,187)**	(413,613)
Repayment/(advances) of loans to a joint venture		**50,031**	(1,134)
Decrease/(increase) in pledged and restricted time deposits and bank balances		**165,675**	(802,140)
Increase in deposit for acquisition of an investment property		**(228,620)**	—
Net cash flow used in investing activities		**(544,301)**	(1,229,384)

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of direct costs		**3,465,194**	1,285,455
Repayment of bank loans		**(3,407,252)**	(584,686)
Loans from a fellow subsidiary		**62,051**	77,745
Repayment of loans from a fellow subsidiary		**(56,000)**	—
Loans from a joint venture	18	**222,430**	372,897
Interest and bank financing charges paid		**(289,995)**	(301,393)
Dividend paid	11	**(45,256)**	(45,533)
Acquisition of non-controlling interests	32	**(16,745)**	(62,806)
Net cash flow from/(used in) financing activities		**(65,573)**	741,679
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,061,212**	(488,909)
Cash and cash equivalents at beginning of year		**1,571,281**	2,072,368
Effect of foreign exchange rate changes, net		**(86,253)**	(12,178)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,546,240**	1,571,281
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged and non-restricted cash and bank balances	20	**1,729,110**	1,253,657
Non-pledged and non-restricted time deposits	20	**817,130**	317,624
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**2,546,240**	1,571,281

Notes to Financial Statements

31 July 2016

1. Corporate and Group Information

Lai Fung Holdings Limited (the "**Company**") 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 Company and its subsidiaries (collectively referred to as the "**Group**") consisted of property development for sale, property investment for rental purposes, and development and operation of and investment in cultural, leisure, entertainment and related facilities.

In the opinion of the directors, the holding company and ultimate holding company of the Company is eSun Holdings Limited ("**eSun**"), which was incorporated in Bermuda and is listed in Hong Kong.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, 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 completed investment properties, certain investment properties under construction and derivative financial instruments, which have been measured at fair value. Non-current asset classified as held for sale is stated at the lower of its carrying amount and fair value less costs to sell as further explained in note 2.4. 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 31 July 2016. A subsidiary is an entity (including a structural entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

Profit or loss and each component of comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

There was no new or revised standards adopted for the first time for the current year's financial statements.

2.3 Issued But Not Yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 9	*Financial Instruments*[3]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[3]
HKFRS 16	*Leases*[4]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 7	*Disclosure Initiative*[2]
Amendments to HKAS 12	*Recognition at Deferred Tax Assets for Unrealised Losses*[2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
6 No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's investments in joint ventures are stated in the consolidated statement of financial position 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. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Business combinations and goodwill

Business combinations from 1 August 2009

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the income statement. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Business combinations from 1 August 2009 (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 July. 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.

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal.

Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 August 2009 but after 1 August 2004

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 August 2009:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities might be different at the date of each exchange transaction. Any adjustment to those fair values relating to previously held interests of the Group was a revaluation and was dealt with in the asset revaluation reserve initially and shall be accounted for as such. Any additional acquired share of interest did not affect previously recognised goodwill.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 August 2009 but after 1 August 2004 (continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Fair value measurement

The Group measures its completed investment properties, certain investment properties under construction and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than completed properties for sale, properties under development, asset classified as held for sale, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, but 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 an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment including owner-operated serviced apartments, other than investment properties, properties under development and construction in progress are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised 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.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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. These include land held for a currently undetermined future use and properties which are constructed for future use as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions as at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period 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 period of the retirement or disposal.

2.4 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

Properties under construction for future use as investment properties are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction. Investment properties under construction are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment properties under construction and their carrying amounts is recognised in the income statement in the period in which it arises.

If the fair value of an investment property under construction is at present not reliably determinable but is expected to be reliably determinable when construction is completed, such investment property under construction is stated at cost until either its fair value becomes reliably determinable or construction is completed, whichever is earlier.

A transfer from investment property under construction to property under development/construction in progress shall be made when, and only when, there is a change in use, evidenced by commencement of development with a view to sale/owner-occupation.

Properties under development

Properties under development represent properties being developed for sale and are stated at lower of cost and net realisable value. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the development of these properties is completed, these properties are transferred to completed properties for sale.

If a property under development is intended to be redeveloped into an owner-managed property, it is transferred to construction in progress at carrying amount.

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 less costs to be incurred in selling the property.

If an item of completed property for sale becomes owner-managed, it is transferred to property, plant and equipment at carrying amount.

For a transfer from an item of completed property for sale to investment property that will be carried at fair value as its use has changed as evidenced by commencement of an operating lease, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated or amortised.

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 operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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. The Group's financial assets include cash and bank balances, amounts due from joint ventures and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interests earned on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement as other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to the income statement in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the effective interest rate. The difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified 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). The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include creditors and accruals, loans from a joint venture, deposits received, interest-bearing bank loans, advances from a former substantial shareholder, loans from a fellow subsidiary, fixed rate senior notes and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as cross currency swaps, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedged item affects the income statement.

For the purpose of hedge accounting, hedges of the Group are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The effectiveness of the cash flow hedge is assessed at the time the Group prepares its annual or interim financial statements.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedge reserve, while any ineffective portion is recognised immediately in the income statement as other operating expenses.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, 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 as at the end of the reporting period 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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences as at the end of the reporting period 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:

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

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

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

- when 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 and 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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.

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "**PRC**").

Mainland China land appreciation tax ("LAT")

LAT is levied at prevailing progressive rates on the appreciation of land value, being the proceeds of the sale of properties less deductible costs.

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) revenue from the sale of properties is recognised when the significant risks and rewards of properties are transferred to the purchasers, which refers to the time when the construction of relevant properties has been completed and the properties have been ready for delivery to the purchasers pursuant to the sales agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as deposits received;

(b) 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;

(c) service fee income is recognised when the relevant services have been rendered;

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

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

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits

Share-based payments

The Company operates a share option scheme for the purposes as detailed in note 30 to the financial statements. Employees (including directors) of the Group receive remuneration in the form of share-based payments, 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. The fair value is determined using a binomial model. 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.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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.

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 their payroll costs to 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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 6.1% has been applied to the expenditure on the individual assets.

Dividend

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling as at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

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 gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or the income statement is also recognised in other comprehensive income or the income statement, respectively).

The functional currencies of certain subsidiaries and joint ventures operating overseas/in Mainland China are currencies other than Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of subsidiaries and joint ventures operating overseas/in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries and joint ventures operating overseas/in Mainland China 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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) 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 for 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 an investment property.

(ii) When fair value of an investment property under construction can be reliably measured

If the fair value of an investment property under construction is at present not reliably measurable, such property is stated at cost until either its fair value becomes reliably measurable or construction is completed, whichever is earlier.

The Group has to exercise judgement in determining when the fair value of an investment property under construction can be reliably measured by assessing whether a substantial part of the project risk has been reduced or eliminated, which might include the consideration of (i) whether the asset is being constructed in a developed liquid market; (ii) whether the construction permits have been obtained; and (iii) the stage of construction or completion. Other indications may also be appropriate in light of the facts and circumstances of individual developments.

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

(iii) Income tax

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

As explained in note 28 to the financial statements, withholding tax is levied on dividends to be distributed by subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax is provided, at the applicable withholding tax rate, on the undistributed earnings of the Group's PRC subsidiaries that would be distributed to their respective holding companies outside Mainland China in the foreseeable future.

The Group's investment properties at fair value in Mainland China are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for properties in the same location and condition and subject to similar lease 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 dates 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 carrying amount of investment properties at 31 July 2016 was HK$14,661,728,000 (2015: HK$14,479,603,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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

The total budgeted costs for properties under development/investment properties under construction 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/investment properties under construction, 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.

(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 non-financial assets (other than goodwill)

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) 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 (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(v) Fair value of derivative financial instruments

Where fair value of derivative financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement including considerations of inputs such as expected exposure at default, credit spread and loss given default ratio. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments. The fair value of the Group's derivative financial instruments are disclosed in note 23 to the financial statements.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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

(b) the property investment segment invests in serviced apartments, commercial and office buildings for their rental income potential as well as cultural, leisure, entertainment and related facilities in Mainland China.

Management monitors the results of the Group's operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measured by means of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, fair value loss on cross currency swaps, impairment of asset classified as held for sale, finance costs, dividend income and other unallocated gains and expenses are excluded from such measurement.

Segment assets exclude prepaid tax, pledged and restricted time deposits and bank balances, cash and cash equivalents, asset classified as held for sale and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, loans from a joint venture, tax payable, advances from a former substantial shareholder, loans from a fellow subsidiary, fixed rate senior notes, deferred tax liabilities, derivative financial instruments and other unallocated corporate liabilities as these liabilities are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

	Property development		Property investment		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue/results:						
Segment revenue						
Sales to external customers	**1,414,160**	1,275,352	**629,370**	626,042	**2,043,530**	1,901,394
Other revenue	**2,659**	1,459	**109,247**	112,295	**111,906**	113,754
Total	**1,416,819**	1,276,811	**738,617**	738,337	**2,155,436**	2,015,148
Segment results	**511,683**	489,261	**846,094**	1,287,051	**1,357,777**	1,776,312
Interest income from bank deposits					**15,339**	20,621
Unallocated gains					**6,231**	8,311
Fair value losses on cross currency swaps					**—**	(86,492)
Impairment of asset classified as held for sale					**—**	(33,177)
Unallocated expenses, net					**(105,158)**	(62,079)
Profit from operating activities					**1,274,189**	1,623,496
Finance costs					**(156,356)**	(199,067)
Share of profits of joint ventures	**167,752**	154,817	**—**	—	**167,752**	154,817
Profit before tax					**1,285,585**	1,579,246
Tax					**(388,163)**	(571,197)
Profit for the year					**897,422**	1,008,049
Segment assets/liabilities:						
Segment assets	**2,690,689**	3,462,149	**16,379,121**	15,809,833	**19,069,810**	19,271,982
Investments in joint ventures	**804,431**	739,028	**—**	—	**804,431**	739,028
Unallocated assets					**3,767,695**	3,004,187
Asset classified as held for sale					**257,666**	265,432
Total assets					**23,899,602**	23,280,629
Segment liabilities	**830,687**	479,129	**541,816**	350,757	**1,372,503**	829,886
Unallocated liabilities					**9,139,485**	8,905,515
Total liabilities					**10,511,988**	9,735,401

During the year, no single customer accounted for over 10% of the Group's total turnover (2015: Nil).

4. Operating Segment Information (continued)

	Property development		Property investment		Consolidated	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Other segment information:						
Depreciation	**2,964**	3,001	**63,501**	66,201	**66,465**	69,202
Corporate and other unallocated depreciation					**4,736**	5,050
					71,201	74,252
Capital expenditure	**616**	1,822	**678,582**	469,612	**679,198**	471,434
Corporate and other unallocated capital expenditure					**367**	1,598
					679,565	473,032
Fair value gains on investment properties	**—**	—	**528,015**	948,654	**528,015**	948,654
Reversal of impairment of investment properties under construction *	**—**	—	**—**	8,471	**—**	8,471
Write-down of completed properties for sale to net realisable value	**3,485**	7,436	**—**	—	**3,485**	7,436
Loss on return of land use right to the local authority	**19,929**	—	**—**	—	**19,929**	—
Loss on disposal of items of property, plant and equipment	**8**	—	**91**	145	**99**	145

* During the year ended 31 July 2015, reversal of impairment of investment properties under construction of HK$8,471,000 was recognised in other comprehensive income.

5. Turnover, Other Income and Gains

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

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

	2016 HK$'000	2015 HK$'000
Turnover:		
Sale of properties	**1,414,160**	1,275,352
Rental income from investment properties and serviced apartments	**629,370**	626,042
	2,043,530	1,901,394
Other income and gains:		
Property management fee income	**98,128**	95,721
Interest income from bank deposits	**15,339**	20,621
Consultancy fee income	**311**	269
Others	**19,698**	26,075
	133,476	142,686

6. Finance Costs

An analysis of the Group's finance costs is as follows:

	Notes	2016 HK$'000	2015 HK$'000
Interest on:			
Bank loans		**139,501**	141,926
2013 Notes (as defined and disclosed in note 27)		**141,117**	141,486
Loans from a joint venture		**15,138**	9,397
Amortisation of:			
Bank loans		**12,844**	14,736
2013 Notes	27	**7,583**	7,060
Bank financing charges and direct costs		**18,857**	26,133
		335,040	340,738
Less: Capitalised in properties under development	14	**(97,536)**	(61,065)
Capitalised in investment properties under construction	15	**(68,596)**	(76,661)
Capitalised in construction in progress	13	**(12,552)**	(3,945)
		(178,684)	(141,671)
Total finance costs		**156,356**	199,067

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 6.1% (2015: 6.4%) has been applied to the expenditure on the individual assets for the year ended 31 July 2016.

7. Profit From Operating Activities

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of completed properties sold		**806,304**	705,031
Outgoings in respect of rental income		**148,420**	159,856
Total cost of sales		**954,724**	864,887
Depreciation #	13	**71,201**	74,252
Ineffective portion of the effective hedge recognised in profit or loss **	23	**9,717**	—
Amortisation of prepaid land lease payments		**17,528**	11,156
Capitalised in properties under development	14	**(17,342)**	(10,961)
	16	**186**	195

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7. Profit From Operating Activities (continued)

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

	Notes	2016 HK$'000	2015 HK$'000
Minimum lease payments under operating leases in respect of land and buildings		**11,343**	8,243
Capitalised in properties under development/ investment properties under construction/ construction in progress		**(7,741)**	(5,523)
		3,602	2,720
Employee benefit expense (including directors' remuneration — note 8):			
Salaries, wages and benefits		**269,692**	252,424
Pension scheme contributions *		**1,208**	912
Equity-settled share option expense	30	**—**	371
		270,900	253,707
Capitalised in properties under development/ investment properties under construction/ construction in progress		**(84,936)**	(79,586)
		185,964	174,121
Auditors' remuneration to auditors of the Company		**3,279**	3,112
Foreign exchange differences, net **		**24,513**	(31,863)
Loss on disposal of items of property, plant and equipment #		**99**	145
Impairment of asset classified as held for sale **	21	**—**	33,177
Loss on return of land use right to the local authority **	14	**19,929**	—
Contingent rents		**(4,109)**	(2,542)
Write-down of completed properties for sale to net realisable value **		**3,485**	7,436

7. Profit From Operating Activities (continued)

The depreciation charge of HK$60,310,000 (2015: HK$62,612,000) for serviced apartments and related leasehold improvements and the loss on disposal of items of property, plant and equipment of HK$99,000 (2015: HK$145,000) are included in "Other operating expenses, net" on the face of the consolidated income statement.

* As at 31 July 2016, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in future years (2015: Nil).

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

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$'000	2015 HK$'000
Fees	**1,375**	1,250
Other emoluments:		
Salaries, allowances and benefits in kind	**20,181**	20,423
Pension scheme contributions	**129**	131
	20,310	20,554
	21,685	21,804
Capitalised in properties under development/ investment properties under construction/ construction in progress	**(13,220)**	(12,166)
	8,465	9,638

For the years ended 31 July 2016 and 2015, no directors were granted share options.

8. Directors' Remuneration (continued)

The remuneration paid to executive directors, non-executive directors and independent non-executive directors during the year are as follows:

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016				
Executive directors:				
Lam Kin Ming	—	1,140	—	1,140
Lam Kin Hong, Matthew	—	1,140	57	1,197
Lam Hau Yin, Lester	—	1,609	18	1,627
U Po Chu	—	4,318	—	4,318
Chew Fook Aun	—	3,941	18	3,959
Cheng Shin How	—	6,601	18	6,619
Lee Tze Yan, Ernest	—	1,432	18	1,450
	—	20,181	129	20,310
Non-executive directors:				
Lucas Ignatius Loh Jen Yuh	—	—	—	—
Chan Boon Seng	—	—	—	—
	—	—	—	—
Independent non-executive directors:				
Lam Bing Kwan	275	—	—	275
Ku Moon Lun	275	—	—	275
Law Kin Ho	275	—	—	275
Mak Wing Sum, Alvin	275	—	—	275
Shek Lai Him, Abraham	275	—	—	275
	1,375	—	—	1,375
Total	1,375	20,181	129	21,685

8. DIRECTORS' REMUNERATION (CONTINUED)

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2015				
Executive directors:				
Lam Kin Ming	—	1,140	—	1,140
Lam Kin Hong, Matthew	—	1,140	57	1,197
Lam Hau Yin, Lester	—	1,543	18	1,561
U Po Chu	—	4,362	—	4,362
Chew Fook Aun	—	4,045	18	4,063
Lau Shu Yan, Julius (resigned on 17 January 2015)	—	959	9	968
Cheng Shin How	—	6,586	18	6,604
Lee Tze Yan, Ernest (appointed on 17 January 2015)	—	648	11	659
	—	20,423	131	20,554
Non-executive directors:				
Lucas Ignatius Loh Jen Yuh	—	—	—	—
Leow Juan Thong, Jason (resigned on 1 October 2014)	—	—	—	—
Chan Boon Seng (appointed on 1 October 2014)	—	—	—	—
	—	—	—	—
Independent non-executive directors:				
Lam Bing Kwan	250	—	—	250
Ku Moon Lun	250	—	—	250
Law Kin Ho	250	—	—	250
Mak Wing Sum, Alvin	250	—	—	250
Shek Lai Him, Abraham	250	—	—	250
	1,250	—	—	1,250
Total	1,250	20,423	131	21,804

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

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

9. Five Highest Paid Employees

The five highest paid employees during the year included three directors (2015: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2015: two) non-director highest paid employees are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**5,929**	5,931
Capitalised in properties under development/ investment properties under construction/ construction in progress	**(3,854)**	(3,499)
	2,075	2,432

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

	Number of employees	
	2016	2015
HK$2,500,001 — HK$3,000,000	**1**	1
HK$3,000,001 — HK$3,500,000	**1**	1
	2	2

10. Tax

No provision for Hong Kong profits tax had been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2015: Nil). Taxes on profits assessable elsewhere had been calculated at the tax rates prevailing in the jurisdictions in which the Group operates.

	Note	2016 HK$'000	2015 HK$'000
Current — Mainland China			
Corporate income tax			
Charge for the year		**130,622**	158,673
Underprovision in prior years		**21,029**	—
		151,651	158,673
LAT			
Charge for the year		**176,315**	165,161
Overprovision in prior years		**(84,115)**	—
		92,200	165,161
Deferred	28	**144,312**	247,363
Total tax charge for the year		**388,163**	571,197

10. TAX (CONTINUED)

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

	2016 **HK$'000**	2015 HK$'000
Profit before tax	**1,285,585**	1,579,246
Tax at the statutory tax rate	**321,396**	394,812
Adjustments for tax rates of other jurisdictions	**10,986**	18,292
Provision for LAT	**176,315**	165,161
Adjustment in respect of LAT of prior years	**(84,115)**	—
Tax effect of provision for LAT	**(23,050)**	(41,290)
Profits attributable to joint ventures	**(41,938)**	(38,704)
Income not subject to tax	**(169)**	(1,281)
Expenses and losses not deductible for tax	**45,035**	41,535
Tax losses not recognised	**1,299**	13,819
Withholding tax on the distributable earnings of the subsidiaries established in Mainland China	**30,353**	18,853
Other temporary difference	**(47,949)**	—
Tax charge at the Group's effective tax rate	**388,163**	571,197

Tax indemnities

In connection with the listing of the Company on the Stock Exchange (currently on the Main Board) (the "**Listing**"), a tax indemnity deed was signed on 12 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 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 joint ventures as at 31 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 31 October 1997 (the "**Valuation**") and (ii) the aggregate costs of such Property Interests incurred up to 31 October 1997 together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests.

10. Tax (continued)

Tax indemnities (continued)

The indemnity deed assumes that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing 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 18 November 1997. During the year, no tax indemnity was received by the Group under the aforesaid indemnities (2015: Nil).

11. Dividend

	2016 **HK\$'000**	2015 HK\$'000
Proposed final — HK\$0.0036 (2015: HK\$0.0033) per ordinary share	**58,312**	53,228

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

On 11 December 2015, the Company's shareholders approved at the annual general meeting a final dividend of HK\$0.0033 per share payable in cash with a scrip dividend alternative (the "**2015 Scrip Dividend Scheme**") for the year ended 31 July 2015 (the "**2015 Final Dividend**"). During the year ended 31 July 2016, 68,017,617 new shares were issued by the Company at a deemed price of HK\$0.1172 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2015 Scrip Dividend Scheme to settle HK\$7,972,000 of the 2015 Final Dividend. The remainder of the 2015 Final Dividend of HK\$45,256,000 was satisfied by cash.

Further details of the 2015 Scrip Dividend Scheme are set out in the Company's circular dated 30 December 2015.

On 9 December 2014, the Company's shareholders approved at the annual general meeting a final dividend of HK\$0.0031 per share payable in cash with a scrip dividend alternative (the "**2014 Scrip Dividend Scheme**") for the year ended 31 July 2014 (the "**2014 Final Dividend**"). During the year ended 31 July 2015, 27,775,212 new shares were issued by the Company at a deemed price of HK\$0.1578 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2014 Scrip Dividend Scheme to settle HK\$4,383,000 of the 2014 Final Dividend. The remainder of the 2014 Final Dividend of HK\$45,533,000 was satisfied by cash.

12. Earnings Per Share Attributable to Owners of the Company

The calculation of basic earnings per share amounts was based on the profit for the year attributable to owners of the Company of HK$873,527,000 (2015: HK$1,004,901,000), and the weighted average number of ordinary shares of 16,164,054,959 (2015: 16,115,824,911) in issue during the year.

The calculation of diluted earnings per share amounts was based on the profit for the year attributable to owners of the Company as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 July 2016 in respect of a dilution as the share options had an anti-dilutive effect on the basic earnings per share amounts presented. The calculations of basic and diluted earnings per share are based on:

	2016 HK$'000	2015 HK$'000
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**873,527**	1,004,901

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**16,164,054,959**	16,115,824,911
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	17,648,191
	16,164,054,959	16,133,473,102

13. Property, Plant and Equipment

	Notes	Leasehold buildings HK$'000	Serviced apartments HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:									
As at 1 August 2014		111,386	1,231,964	289,244	40,646	19,382	11,893	276,030	1,980,545
Finance costs capitalised	6	—	—	—	—	—	—	3,945	3,945
Additions		—	1,497	691	2,906	1,470	1,521	20,815	28,900
Disposals		—	—	—	(495)	(472)	(150)	—	(1,117)
Transfer to asset classified as held for sale	21	—	—	—	—	—	—	(298,485)	(298,485)
Transfer from investment properties under construction	15	—	—	—	—	—	—	175,875	175,875
Exchange realignment		(547)	(6,320)	(2,363)	(240)	(95)	(75)	(2,305)	(11,945)
As at 31 July 2015 and 1 August 2015		110,839	1,227,141	287,572	42,817	20,285	13,189	175,875	1,877,718
Finance costs capitalised	6	—	—	—	—	—	—	12,552	12,552
Additions		—	293	4,518	2,297	878	903	68,630	77,519
Disposals		—	—	—	(516)	(664)	(82)	—	(1,262)
Transfer from investment properties under construction	15	—	—	—	—	—	—	164,411	164,411
Exchange realignment		(3,929)	(45,523)	(17,020)	(1,877)	(694)	(621)	(9,540)	(79,204)
As at 31 July 2016		**106,910**	**1,181,911**	**275,070**	**42,721**	**19,805**	**13,389**	**411,928**	**2,051,734**
Accumulated depreciation:									
As at 1 August 2014		31,449	275,297	122,880	28,582	15,323	7,245	—	480,776
Depreciation provided during the year	7	2,728	26,585	37,424	4,258	1,486	1,771	—	74,252
Disposals		—	—	—	(413)	(424)	(135)	—	(972)
Exchange realignment		(202)	(847)	(1,114)	(158)	(68)	(45)	—	(2,434)
As at 31 July 2015 and 1 August 2015		33,975	301,035	159,190	32,269	16,317	8,836	—	551,622
Depreciation provided during the year	7	2,648	25,881	35,702	3,965	1,350	1,655	—	71,201
Disposals		—	—	—	(492)	(597)	(74)	—	(1,163)
Exchange realignment		(1,563)	(6,960)	(9,981)	(1,342)	(539)	(412)	—	(20,797)
As at 31 July 2016		**35,060**	**319,956**	**184,911**	**34,400**	**16,531**	**10,005**	**—**	**600,863**
Net carrying amount:									
As at 31 July 2016		**71,850**	**861,955**	**90,159**	**8,321**	**3,274**	**3,384**	**411,928**	**1,450,871**
As at 31 July 2015		76,864	926,106	128,382	10,548	3,968	4,353	175,875	1,326,096

13. Property, Plant and Equipment (continued)

As at 31 July 2016, a leasehold building, certain serviced apartments (including related leasehold improvements) and construction in progress with an aggregate carrying amount of nil (2015: HK$37,372,000), HK$572,068,000 (2015: HK$621,777,000) and HK$411,928,000 (2015: Nil), respectively, were pledged to banks to secure certain bank borrowings of the Group as further set out in note 24(a) and note 24(b) to the financial statements.

14. Properties Under Development

	Notes	2016 HK$'000	2015 HK$'000
Carrying amount as at 1 August		**1,895,857**	1,235,292
Finance costs capitalised	6	**97,536**	61,065
Additions (including capitalisation of prepaid land lease payments of HK$17,342,000 (2015: HK$10,961,000))		**378,891**	1,351,476
Amortisation of prepaid land lease payments		**(17,342)**	(10,961)
Transfer from investment properties under construction	15	**—**	200,224
Transfer to completed properties for sale		**—**	(930,460)
Return of land use right to the local authority#		**(267,078)**	—
Exchange realignment		**(111,645)**	(10,779)
Carrying amount as at 31 July		**1,976,219**	1,895,857
Amount classified as current assets		**(791,844)**	(278,459)
Non-current portion		**1,184,375**	1,617,398

During the year ended 31 July 2016, a site located on Guan Lu Road in Yuexiu District of Guangzhou, Mainland China was returned to the local authority with a cash consideration of HK$247,149,000 received. A loss on return of land use right to the local authority of HK$19,929,000 (note 7) was included in "Other operating expenses, net" on the face of the consolidated income statement.

As at 31 July 2016, certain properties under development with an aggregate carrying amount of HK$361,669,000 (2015: HK$89,678,000) were pledged to banks to secure certain bank borrowings of the Group as further set out in note 24(c) to the financial statements.

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

	Note	2016 HK$'000	2015 HK$'000
Carrying amount as at 1 August		**1,075,097**	267,190
Addition		**—**	719,003
Transfer from investment properties under construction		**—**	156,639
Amortised during the year	7	**(17,342)**	(10,961)
Transfer to completed properties for sale		**—**	(54,584)
Return of land use right to the local authority		**(91,965)**	—
Exchange realignment		**(64,714)**	(2,190)
Carrying amount as at 31 July		**901,076**	1,075,097

15. Investment Properties

	2016 HK$'000	2015 HK$'000
Completed investment properties	**12,697,500**	10,792,100
Investment properties under construction, at fair value	**550,000**	2,237,000
Investment properties under construction, at cost *	**1,414,228**	1,450,503
Total	**14,661,728**	14,479,603

* Certain investment properties under construction were carried at cost as at the end of the reporting period as such properties were under the planning or resettlement stage and their fair values were not reliably measurable.

	Notes	2016 HK$'000	2015 HK$'000
Carrying amount as at 1 August		**14,479,603**	13,479,025
Finance costs capitalised	6	**68,596**	76,661
Additions		**602,046**	444,132
Transfer from completed properties for sale		**34,582**	14,863
Transfer to properties under development	14	**—**	(200,224)
Transfer to construction in progress	13	**(164,411)**	(175,875)
Net gain from fair value adjustments		**528,015**	948,654
Reversal of impairment		**—**	8,471
Exchange realignment		**(886,703)**	(116,104)
Carrying amount as at 31 July		**14,661,728**	14,479,603

The completed investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

During the year ended 31 July 2015, a reversal of impairment of HK$8,471,000 was recognised in other comprehensive income, which represented the write-up of a parcel of land in Shanghai, Mainland China, to its recoverable amount which was its value in use estimated using a discount rate of 5.25%.

As at 31 July 2016, certain investment properties with an aggregate carrying amount of HK$9,431,499,000 (2015: HK$9,007,575,000) were pledged to banks to secure certain bank borrowings of the Group as further set out in note 24(d) to the financial statements.

15. INVESTMENT PROPERTIES (CONTINUED)

Valuation processes of the Group

Each year, the Group's management appoints an external valuer to be responsible for the external valuations of the Group's properties (the "**Property Valuers**"). Selection criteria of an external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the Property Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The valuation techniques used in prior years have been consistently applied in current year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's completed investment properties and investment properties under construction stated at fair value were revalued by Knight Frank Petty Limited, an independent professionally qualified valuer.

Valuation techniques

Fair value measurements using significant unobservable inputs (Level 3)

The Group's investment properties consist of commercial properties in Mainland China.

For completed investment properties, valuations are based on income capitalisation method and direct comparison method. The income capitalisation method is based on capitalisation of the net income and the reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuations have reference to valuers' view of recent lettings, within the subject properties and other comparable properties. The direct comparison method is based on market comparable transactions available in the market and adjustments of various factors would be made between the subject properties and comparable properties.

For investment properties under construction stated at fair value, the Group has valued such properties on the basis that they will be developed and completed in accordance with the Group's latest development plans. Valuations are based on residual method, which is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk associated with the estimated capital value of the proposed development assuming completed as at the date of valuation.

15. Investment Properties (continued)

Valuation techniques (continued)

Information about fair value measurement using significant unobservable inputs (Level 3)

2016

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties				
Commercial properties	Income capitalisation method	Average unit market rent per month (HK$/sq.m)	33-357	note 1
		Capitalisation rate	4.25%-7.50%	note 2
Commercial properties	Direct comparison method	Average market unit rate (HK$/sq.m)	23,900-156,000	note 6
Investment properties under construction				
Commercial properties	Residual method	Gross development value (HK$/sq.m)	9,400-26,300	note 3
		Developer's profit margin	30%	note 4
		Budgeted costs to completion (HK$)	1,294,294,000	note 5

2015

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed investment properties				
Commercial properties	Income capitalisation method	Average unit market rent per month (HK$/sq.m)	31-393	note 1
		Capitalisation rate	4.25%-7.50%	note 2
Commercial properties	Direct comparison method	Average market unit rate (HK$/sq.m)	24,900-152,000	note 6
Investment properties under construction				
Commercial properties	Residual method	Gross development value (HK$/sq.m)	22,400-43,600	note 3
		Developer's profit margin	4%-25%	note 4
		Budgeted costs to completion (HK$)	354,201,000-2,049,287,000	note 5

15. Investment Properties (continued)

Valuation techniques (continued)

Notes:

1. The higher the market rent, the higher the fair value
2. The higher the capitalisation rate, the lower the fair value
3. The higher the gross development value, the higher the fair value
4. The higher the developer's profit margin, the lower the fair value
5. The higher the budgeted costs to completion, the lower the fair value
6. The higher the market unit rate, the higher the fair value

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

16. Prepaid Land Lease Payments

	Note	2016 HK$'000	2015 HK$'000
Carrying amount as at 1 August		**5,115**	5,345
Amortised during the year	7	**(186)**	(195)
Exchange realignment		**(306)**	(35)
Carrying amount as at 31 July		**4,623**	5,115

17. Deposit for Acquisition of an Investment Property

On 30 September 2015, Shanghai Zhabei Plaza Real Estate Development Company Limited ("**Shanghai Zhabei**", as purchaser), being a subsidiary of the Company, Federation of Trade Union of Zhabei District of Shanghai ("**Zhabei Trade Union**", as vendor) and the Company (as guarantor) entered into an agreement, pursuant to which Shanghai Zhabei conditionally agreed to acquire and Zhabei Trade Union conditionally agreed to sell certain property (the "**Property**") at a cash consideration of approximately RMB355.1 million (equivalent to approximately HK$415.7 million) (the "**Acquisition**"). The Property, comprising portion of a commercial building with total gross floor area of approximately 10,345 sqm (equivalent to approximately 111,354 sq.ft.) and the right to use 20 basement carparking spaces, is physically connected to an investment property currently held by the Group and situated at Jing'an District, Shanghai.

Further details of the Acquisition are set out in a joint announcement of the Company and eSun dated 30 September 2015.

As at 31 July 2016, a deposit for the Acquisition of RMB195.3 million (equivalent to approximately HK$228.6 million) (2015: Nil) was paid. The remaining consideration of RMB159.8 million (approximately HK$187.1 million) was paid and the Acquisition was completed in September 2016.

18. Investments In Joint Ventures

	2016 HK$'000	2015 HK$'000
Share of net assets, other than goodwill	**618,578**	503,049
Due from joint ventures	**185,853**	235,979
	804,431	739,028

The amounts due from joint ventures were unsecured, interest-free and had no fixed terms of repayment.

	2016 Effective interest rate (%)	2016 HK$'000	2015 Effective interest rate (%)	2015 HK$'000
Unsecured loans from a joint venture:				
Current	**3.92-4.20**	**350,328**	3.92-4.20	372,897
Non-current	**3.05**	**222,430**	—	—
		572,758		372,897
Maturity profile:				
Within one year		**350,328**		372,897
In the second year		**—**		—
In the third to fifth years, inclusive		**222,430**		—
		572,758		372,897

Details of the joint ventures are set out in note 43 to the financial statements.

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs and adjusted by the Group for equity accounting purposes. The joint ventures are accounted for using the equity method in the consolidated financial statements.

18. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The summarised financial information below represents amounts shown in the consolidated financial statements of Beautiwin Limited and Guangzhou Beautiwin Real Estate Development Company Limited ("**Guangzhou Beautiwin**"), the holder of the Dolce Vita project in Guangzhou, (collectively referred to as the "**Beautiwin Group**") prepared in accordance with HKFRSs:

	2016 HK$'000	2015 HK$'000
Assets and liabilities		
Current assets (including cash and cash equivalents of HK$742,188,000 (2015: HK$790,102,000))	**5,326,816**	3,223,256
Non-current assets	**647,143**	973,529
Total assets	**5,973,959**	4,196,785
Current and total liabilities	**(4,647,793)**	(3,109,704)
Current financial liabilities (excluding creditors and accruals)	**(371,271)**	(469,708)
Profit and total comprehensive income for the year		
Revenue (including interest income of HK$17,132,000 (2015: HK$11,569,000))	**1,549,223**	1,210,491
Cost of sales	**(601,111)**	(468,124)
Expenses (including depreciation expenses of HK$1,139,000 (2015: HK$1,075,000))	**(54,154)**	(47,183)
Tax	**(539,235)**	(368,249)
Profit for the year	**354,723**	326,935
Other comprehensive expense for the year, net of tax	**(115,638)**	(15,948)
Total comprehensive income for the year, net of tax	**239,085**	310,987
Less: Non-controlling interests	**(8,027)**	(16,707)
	231,058	294,280

18. Investments In Joint Ventures (continued)

Reconciliation of the above summarised financial information of the Beautiwin Group to the carrying amount of the investments in the joint ventures recognised in the consolidated financial statements:

	2016 HK$'000	2015 HK$'000
Net assets of the Beautiwin Group	**1,326,166**	1,087,081
Less: Non-controlling interests	**(89,010)**	(80,983)
	1,237,156	1,006,098
The Group's 50% interests in the Beautiwin Group	**618,578**	503,049
Amount due from the Beautiwin Group	**185,853**	235,979
Carrying amount of the Group's interests in the Beautiwin Group as recorded in the consolidated financial statements	**804,431**	739,028

19. 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. Serviced apartment charges are mainly settled by customers on a 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 were interest-free.

The Group did not hold any collateral or other credit enhancements over these balances.

An ageing analysis of trade receivables as at the end of the reporting period, based on payment due date, is as follows:

	2016 HK$'000	2015 HK$'000
Trade receivables, net		
Within one month	**239,078**	219,888
One to three months	**6,466**	1,952
Over three months	**5,276**	2,264
	250,820	224,104
Other receivables, deposits and prepayments	**116,248**	103,275
Total	**367,068**	327,379

20. Cash and Cash Equivalents and Pledged and Restricted Time Deposits and Bank Balances

	Notes	2016 HK$'000	2015 HK$'000
Cash and bank balances		**2,795,484**	2,420,898
Less: Pledged and restricted bank balances			
Pledged for banking facilities *		**(5,692)**	(6,039)
Pledged for bank loans	24(f)	**(131,538)**	(563,476)
Restricted **		**(929,144)**	(597,726)
Non-pledged and non-restricted cash and bank balances		**1,729,110**	1,253,657
Time deposits		**817,130**	443,213
Less: Pledged and restricted time deposits			
Pledged for bank loans	24(f)	**—**	(125,589)
Non-pledged and non-restricted time deposits		**817,130**	317,624
Cash and cash equivalents		**2,546,240**	1,571,281

* The balances were 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 the relevant laws and regulations imposed by the government authorities concerned or the terms and conditions set out in the relevant bank loan agreements, proceeds from the pre-sale of certain properties are required to be deposited into designated bank accounts and restricted to be used in the relevant project construction. Such restriction will be uplifted upon repayment of the relevant bank loans or the attainment of the relevant ownership certificates issued by the authorities. As at 31 July 2016, the balance was HK$778,893,000 (2015: HK$522,997,000).

In accordance with the relevant laws and regulations imposed by the government authorities concerned, estimated resettlement costs of certain sites for development are required to be deposited into designated bank accounts. Such deposits are restricted to be used for the resettlement and such restriction will be uplifted upon completion of the resettlement. As at 31 July 2016, the balance amounted to HK$33,153,000 (2015: HK$35,175,000).

In accordance with the relevant clauses of certain bank loan facilities, proceeds from the drawdown of bank loans are required to be deposited into designated bank accounts and restricted to be used for settlement of construction costs of the relevant projects. As at 31 July 2016, the balance amounted to HK$117,098,000 (2015: HK$39,554,000).

The conversion of Renminbi ("**RMB**") denominated cash and bank balances into foreign currencies and the remittance of such foreign currencies denominated balances out of Mainland China are subject to the relevant rules and regulations of foreign exchange control promulgated by the government authorities concerned. As at 31 July 2016, such RMB denominated time deposits and cash and bank balances of the Group amounted to HK$3,083,928,000 (2015: HK$2,192,650,000).

21. Asset Classified as Held for Sale

On 23 November 1993, Grand Wealth Limited ("**Grand Wealth**"), an indirect wholly-owned subsidiary of the Company, and Guangzhou Light Industry Real Estate Development Company ("**Guangzhou Light Industry**") entered into a joint venture agreement (as supplemented, the "**JVA**") to form a co-operative joint venture company, Guangzhou Grand Wealth Properties Limited ("**Guangzhou Grand Wealth**") in relation to a property development project in Guangzhou, the PRC known as Guangzhou Eastern Place.

In accordance with the original terms of the JVA, upon completion of Guangzhou Eastern Place Phase V, certain residential and office units of Guangzhou Eastern Place Phase V will be allocated and transferred to Guangzhou Light Industry.

On 15 January 2015, Grand Wealth and Guangzhou Light Industry entered into a new supplemental agreement (the "**Supplemental Agreement**") to, among other things, amend the above arrangement whereby Grand Wealth and Guangzhou Light Industry conditionally agreed that in lieu of allocating certain office units of Guangzhou Eastern Place Phase V (the "**Original Property**") to Guangzhou Light Industry as contemplated under the JVA, Grand Wealth would procure the transfer of Guangzhou Paramount Centre, a serviced apartment under development of the Group in Guangzhou, the PRC (the "**Substituted Property**") to Guangzhou Light Industry.

The completion of the conditional swap of the Original Property and the Substituted Property between Grand Wealth and Guangzhou Light Industry on the terms and conditions of the Supplemental Agreement (the "**Transaction**") is subject to, among others, the following conditions having been fulfilled:

(1) the transfer of the Substituted Property to Guangzhou Light Industry having completed before the registration of completion of the construction work of office units of Guangzhou Eastern Place Phase V, failing that Guangzhou Light Industry is entitled to require the Original Property to be allocated and transferred to it; and

(2) the shareholders of eSun, the ultimate holding company of the Company, having approved the Transaction.

Further details of the Transaction are set out in a joint announcement of the Company and eSun dated 15 January 2015, and in a circular of eSun dated 16 February 2015.

The Supplemental Agreement and the Transaction were approved by eSun's shareholders at a special general meeting held on 5 March 2015.

The Transaction is still underway and expected to be completed in the coming financial year.

21. Asset Classified as Held for Sale (continued)

The Substituted Property was classified as an asset classified as held for sale and its non-recurring fair value measurement is as follows:

Non-recurring fair value measurement:

	2016 HK$'000	2015 HK$'000
Asset classified as held for sale	**257,666**	265,432

In accordance with HKFRS 5, at 31 July 2016, the asset classified as held for sale with a carrying amount of HK$257,666,000 is assessed against its fair value of HK$302,388,000 less costs to sell of HK$44,722,000 and no impairment is recognised for the year ended 31 July 2016.

At 31 July 2015, the asset classified as held for sale with a carrying amount of HK$298,485,000 was written down to its fair value of HK$313,022,000 less costs to sell of HK$47,590,000, resulting in an impairment loss of HK$33,177,000 (note 7) which was included in "Other operating expenses, net" on the face of the consolidated income statement for the year ended 31 July 2015.

Valuation process of the Group

The Group's asset classified as held for sale stated at fair value less costs to sell was valued by Knight Frank Petty Limited, an independent professionally qualified valuer. The valuation process is the same as that of investment properties as disclosed in note 15.

21. Asset Classified as Held for Sale (continued)

Valuation technique

Fair value measurement using significant unobservable inputs (Level 3)

For asset classified as held for sale, valuations are based on direct comparison method. This method is based on market comparable transactions available in the market and adjustments of various factors would be made between the subject property and comparable properties.

Information about fair value measurement using significant unobservable inputs (Level 3)

2016

Description	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**
Commercial properties	Direct comparison method	Average market unit rate (HK$/sq.m)	37,500-55,000	note 1

2015

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Commercial properties	Direct comparison method	Average market unit rate (HK$/sq.m)	38,600-58,600	note 1

Note 1: The higher the market unit rate, the higher the fair value

22. Creditors and Accruals

An ageing analysis of trade payables as at the end of the reporting period, based on payment due date, is as follows:

	2016 HK$'000	2015 HK$'000
Trade payables		
Within one month	**81,680**	39,315
One to three months	**16,777**	9,951
Over three months	**72**	—
	98,529	49,266
Accruals and other payables	**698,983**	601,577
Total	**797,512**	650,843

Trade payables of the Group were interest-free and were due for settlement pursuant to the terms of the relevant agreements.

23. Derivative Financial Instruments

	2016 HK$'000	2015 HK$'000
Financial liabilities – Cross currency swap agreements (the "**CCS**")	**210,068**	111,654

The carrying amounts of the CCS are the same as their fair values.

The movements in the financial liabilities arising from the CCS during the year are as follows:

	Note	2016 HK$'000	2015 HK$'000
Carrying amount as at 1 August		**111,654**	25,162
Fair value losses charged to the hedge reserve (note b)		**88,697**	—
Fair value losses charged to the consolidated income statement (note a)		**—**	86,492
Ineffective portion of the effective hedge recognised in profit or loss	7	**9,717**	—
Carrying amount as at 31 July		**210,068**	111,654

23. Derivative Financial Instruments (continued)

Cross Currency Swaps – cash flow hedge

On 25 April 2013, the Group entered into the CCS with financial institutions with an aggregate nominal amount of RMB1,800,000,000 for the purpose of hedging the foreign currency risk arising from the 2013 Notes as detailed in note 27 to the financial statements.

Pursuant to the terms of the CCS, the Company receives interest payments semi-annually at a fixed rate of 6.875% per annum on the aggregate notional amount of RMB1,800,000,000 during the period from 25 April 2013 to 25 April 2018 right before each Interest Payment Date (as defined in note 27) of the 2013 Notes, and makes interest payments semi-annually at a fixed rate of 6.135% per annum on the aggregate notional amount of approximately US$291,616,000 (being the US$ equivalent amount of RMB1,800,000,000, translated at a contracted exchange rate of US$1 to RMB6.1725) during the period from 25 April 2013 to 25 April 2018 right before each Interest Payment Date. Right before 25 April 2018, the Group will receive the aggregate notional amount of RMB1,800,000,000 and will pay the aggregate notional amount of US$291,616,000.

The CCS are designated as hedging instruments in respect of the 2013 Notes and the CCS balances vary with the changes in foreign exchange forward rates.

The effectiveness of the cash flow hedges is assessed semi-annually by the Group. The assessment results of the cash flow hedges are set out as follows:

(a) As at 31 January 2015 and 31 July 2015, the cash flow hedges of the 2013 Notes were assessed to be ineffective and did not qualify for hedge accounting. Net fair value loss of HK$86,492,000, including fair value losses of HK$112,721,000 for the period between 1 August 2014 and 31 January 2015 and fair value gains of HK$26,229,000 for the period between 1 February 2015 and 31 July 2015, arising from changes in the fair values of the CCS during the year ended 31 July 2015 are charged to the consolidated income statement.

(b) As at 31 January 2016 and 31 July 2016, the cash flow hedges of the 2013 Notes were assessed to be highly effective and a net gain on the cash flow hedges of HK$47,059,000 was included in the hedge reserve as follows:

	2016 HK$'000
Total fair value losses included in hedge reserve	**(88,697)**
Transferred from the hedge reserve to the consolidated income statement for the exchange gains for the 2013 Notes	**135,756**
Net gain on cash flow hedges	**47,059**

24. INTEREST-BEARING BANK LOANS, SECURED

	2016 Effective interest rate (%)	2016 HK$'000	2015 Effective interest rate (%)	2015 HK$'000
Secured bank loans:				
Current	**3.94-6.89**	**287,548**	2.75-7.09	2,487,367
Non-current	**3.64-6.89**	**2,747,970**	5.51-8.00	533,780
		3,035,518		3,021,147
Maturity profile:				
Within one year		**287,548**		2,487,367
In the second year		**537,497**		212,799
In the third to fifth years, inclusive		**2,085,245**		150,302
Beyond five years		**125,228**		170,679
		3,035,518		3,021,147

On 28 March 2013, the Company (i) as borrower and, inter alios, the banks named therein as lenders entered into an offshore facility agreement in relation to facilities of HK$2,500,000,000 (the "**2013 Offshore Facilities**"); and (ii) as guarantor and, inter alios, certain subsidiaries of the Company as borrowers and banks named therein as lenders entered into an onshore facility agreement in relation to facilities of approximately HK$1,050,000,000 equivalent (the "**2013 Onshore Facilities**"). As at 31 July 2015, HK$1,510,000,000 and HK$968,085,000 were outstanding under the 2013 Offshore Facilities and the 2013 Onshore Facilities, respectively. Both the 2013 Offshore Facilities and 2013 Onshore Facilities matured on 28 March 2016.

On 18 March 2016, the Company (i) as borrower and, inter alios, the banks named therein as lenders entered into an offshore facility agreement in relation to facilities of HK$2,650,000,000 (the "**2016 Offshore Facilities**"); and (ii) as guarantor and, inter alios, certain subsidiaries of the Company as borrowers and banks named therein as lenders entered into an onshore facility agreement in relation to facilities of approximately HK$936,000,000 equivalent (the "**2016 Onshore Facilities**").

The purposes of the 2016 Offshore Facilities are mainly for financing investments in property related projects, refinancing the loans outstanding under the 2013 Offshore Facilities due on 28 March 2016 and general corporate purposes of the Group. The entire 2016 Onshore Facilities were drawn and fully applied for refinancing the loans outstanding under the 2013 Onshore Facilities due on 28 March 2016. As at 31 July 2016, HK$1,394,000,000 and HK$916,581,000 were outstanding under the 2016 Offshore Facilities and the 2016 Onshore Facilities, respectively.

24. Interest-Bearing Bank Loans, Secured (continued)

Bank loans of the Group as at the end of the reporting period were secured by:

(a) mortgages over a leasehold building and certain serviced apartments (including related leasehold improvements) of the Group with carrying amounts of nil (2015: HK$37,372,000) and HK$572,068,000 (2015: HK$621,777,000) (note 13), respectively;

(b) mortgage over construction in progress of the Group with an aggregate carrying amount of HK$411,928,000 (2015: Nil) (note 13);

(c) mortgages over certain properties under development of the Group with an aggregate carrying amount of HK$361,669,000 (2015: HK$89,678,000) (note 14);

(d) mortgages over certain investment properties of the Group with an aggregate carrying amount of HK$9,431,499,000 (2015: HK$9,007,575,000) (note 15);

(e) mortgages over certain completed properties for sale for the Group with an aggregate carrying amount of HK$55,900,000 (2015: HK$375,772,000);

(f) charges over time deposits and bank balances of the Group with an aggregate carrying amount of HK$131,538,000 (2015: HK$689,065,000) (note 20);

(g) charges over the entire equity interests in certain subsidiaries of the Company shared on a pari passu basis with the holders of fixed rate senior notes (note 27); and

(h) charges over the entire equity interest in a subsidiary of the Company.

Pursuant to an intercreditor agreement dated 28 March 2013 (as amended, restated and supplemented from time to time) (the "**Intercreditor Agreement**"), (i) the lenders under the 2016 Offshore Facilities (2015: 2013 Offshore Facilities), (ii) the holder of 2013 Notes (as defined in note 27) and (iii) the holders of future permitted pari passu secured indebtedness, if any, are entitled to the benefit of a lien on a package of securities shared on a pari passu basis. Accordingly, as at 31 July 2016, the 2016 Offshore Facilities (2015: 2013 Offshore Facilities) are guaranteed on a joint and several basis by the same entities acting as subsidiary guarantors under the 2013 Notes, subject to certain limitations. In addition, the shares in certain subsidiaries of the Company and a debt service reserve account (collectively, the "**Collateral**") have been charged to secure amounts outstanding under the 2016 Offshore Facilities (2015: 2013 Offshore Facilities) (and on a pari passu basis with the 2013 Notes).

After execution of the facility agreement in relation to the 2016 Offshore Facilities, on 21 March 2016, the agent of the 2016 Offshore Facilities acceded to and became a party to the Intercreditor Agreement. Upon and after the refinancing of the 2013 Offshore Facilities on 24 March 2016, the agent of the 2013 Offshore Facilities ceased to be a party to the Intercreditor Agreement in accordance with the terms thereof.

25. Advances From a Former Substantial Shareholder

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 end of the reporting period. The advances were unsecured and interest-free.

26. LOANS FROM A FELLOW SUBSIDIARY

The fellow subsidiary, as a non-controlling shareholder of a subsidiary of the Company, agreed that no demand for settlement of the loans would be made to that subsidiary within one year from the end of the reporting period. The loans were unsecured and interest-free.

27. FIXED RATE SENIOR NOTES

RMB1,800,000,000 6.875% Senior Notes due 2018

On 25 April 2013, the Company issued RMB1,800,000,000 (equivalent to approximately HK$2,243,270,000) of 6.875% fixed rate senior notes (the "**2013 Notes**"), which will mature on 25 April 2018 for bullet repayment. The 2013 Notes bear interest from 25 April 2013 and are payable semi-annually in arrears on 25 April and 25 October of each year, commencing on 25 October 2013 (each, an "**Interest Payment Date**"). The 2013 Notes are listed on the Stock Exchange.

The 2013 Notes were issued for refinancing of existing debt and for general corporate purposes. The net proceeds of the 2013 Notes after deducting issue expenses amounted to approximately HK$2,205,883,000.

No 2013 Notes were repurchased during the year (2015: Nil).

The senior notes recognised in the statement of financial position are calculated as follows:

	2016 HK$'000	2015 HK$'000
2013 Notes		
Carrying amount as at 1 August	**2,220,914**	2,232,738
Amortisation of the 2013 Notes (note 6)	**7,583**	7,060
Exchange realignment	**(135,756)**	(18,884)
Carrying amount as at 31 July	**2,092,741**	2,220,914

The effective interest rate of the 2013 Notes is 7.28% per annum.

In connection with the 2013 Notes, the Company entered into the CCS (as defined in note 23) with financial institutions, which have effectively converted the 2013 Notes into fixed rate US$ denominated loans. Taking into account the CCS, the effective interest rate of the 2013 Notes is 6.53% per annum. Details of the CCS are set out in note 23 to the financial statements.

As detailed in note 24 to the financial statements, the holder of 2013 Notes are entitled to the benefit of a lien on a package of securities, comprising guarantees provided by certain subsidiaries of the Company and charges over the Collateral, on a pari passu basis with the lenders under the 2016 Offshore Facilities (2015: 2013 Offshore Facilities) and the holders of future permitted pari passu secured indebtedness, if any.

28. Deferred Tax

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

	Depreciation allowance in excess of related depreciation and development costs HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Revaluation of properties HK$'000	Withholding tax HK$'000	Losses available for offsetting against future taxable profits HK$'000	Other temporary differences HK$'000	Total HK$'000
As at 1 August 2014	432,088	123,865	1,513,897	46,732	(1,042)	88,207	2,203,747
Deferred tax charged/(credited) to the income statement during the year (note 10)	40,340	(9,120)	237,164	18,853	(10,199)	(29,675)	247,363
Deferred tax charged to the asset revaluation reserve during the year	—	2,118	—	—	—	—	2,118
Deferred tax utilised during the year	—	—	—	(27,091)	—	—	(27,091)
Exchange realignment	(3,862)	(925)	(13,380)	—	47	(625)	(18,745)
As at 31 July 2015 and 1 August 2015	468,566	115,938	1,737,681	38,494	(11,194)	57,907	2,407,392
Deferred tax charged/(credited) to the income statement during the year (note 10)	45,895	(3,443)	132,004	30,353	(12,548)	(47,949)	144,312
Exchange realignment	(29,245)	(6,939)	(107,016)	—	935	(2,519)	(144,784)
As at 31 July 2016	**485,216**	**105,556**	**1,762,669**	**68,847**	**(22,807)**	**7,439**	**2,406,920**

As at 31 July 2016, the Group had tax losses arising in Mainland China of HK$137,054,000 (2015: HK$131,858,000) that would expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it may not be probable that taxable profits will be available against which the tax losses could be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% (2015: 5%). The Group is therefore liable to withholding taxes on dividends to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

29. Share Capital

Shares

	2016 HK$'000	2015 HK$'000
Authorised:		
20,000,000,000 (2015: 20,000,000,000) ordinary shares of HK$0.10 each	**2,000,000**	2,000,000
Issued and fully paid:		
16,197,692,086 (2015: 16,129,674,469) ordinary shares of HK$0.10 each	**1,619,770**	1,612,968

The movements in authorised and issued share capital of the Company during the year were as follows:

	Number of authorised shares	Number of issued shares	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
As at 1 August 2014	20,000,000,000	16,101,899,257	1,610,190	4,066,482	5,676,672
Shares issued in lieu of cash dividend (note 11)	—	27,775,212	2,778	1,605	4,383
As at 31 July 2015 and 1 August 2015	20,000,000,000	16,129,674,469	1,612,968	4,068,087	5,681,055
Shares issued in lieu of cash dividend (note 11)	—	68,017,617	6,802	1,170	7,972
As at 31 July 2016	**20,000,000,000**	**16,197,692,086**	**1,619,770**	**4,069,257**	**5,689,027**

Share options

Details of the Company's share option schemes are included in note 30 to the financial statements.

30. Share Option Schemes

2003 Share Option Scheme

On 21 August 2003, the Company adopted a share option scheme (the "**2003 Share Option Scheme**") for the purpose of providing incentives and rewards to Eligible Participants (as defined in the scheme) who contribute to the success of the Group's operations. Eligible Participants of the 2003 Share Option Scheme include the directors and any employees of the Group. Unless otherwise cancelled or amended, the 2003 Share Option Scheme will remain in force for 10 years from that date. The 2003 Share Option Scheme was terminated upon the adoption of the 2012 Share Option Scheme (as defined below) on 18 December 2012.

The maximum number of share options permitted to be granted under the 2003 Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as approved in accordance with the 2003 Share Option Scheme. The maximum number of shares issuable under share options to each Eligible Participant in the 2003 Share Option 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 of the Company.

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 of the Company. 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 closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such period shall not be longer than 8 years from the date of grant of the share options.

The exercise price of the share options is determined by the directors of the Company, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

30. Share Option Schemes (continued)

2012 Share Option Scheme

On 18 December 2012 (the "**Adoption Date**"), the Company adopted a new share option scheme (the "**2012 Share Option Scheme**") and terminated the 2003 Share Option Scheme. Subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the previous scheme. The purpose of the 2012 Share Option Scheme is to recognise the contribution or future contribution of the Eligible Participants (as defined in the scheme) to the Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-caliber Eligible Participants in line with the performance goals of the Relevant Companies (as defined in the scheme). Eligible Participants include but are not limited to the directors and any employees of the Group. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will remain in force for 10 years from the Adoption Date.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the 2012 Share Option Scheme (i) shall not exceed 10% of the shares of the Company in issue on the Adoption Date; (ii) shall not exceed 30% of the shares of the Company in issue from time to time; and (iii) to each Eligible Participant and 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 the limits set out in (i) and (iii) is subject to the approval of shareholders of the Company and the shareholders of eSun (so long as the Company is a subsidiary of eSun under the Listing Rules) in the respective general meetings.

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 of each of the Company and eSun (so long as the Company is a subsidiary of eSun under the Listing Rules). 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 closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the approval of shareholders of the Company and the shareholders of eSun (so long as the Company is a subsidiary of eSun under the Listing Rules) in the respective general meetings.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such period shall not be longer than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, which shall be at least the highest of (i) the Stock Exchange closing price of the Company's shares on the date of grant 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 grant; and (iii) the nominal value of a share of the Company on the date of grant.

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

30. Share Option Schemes (continued)

The movements of share options under the 2003 Share Option Scheme and the 2012 Share Option Scheme during the year are as follows:

		Number of underlying shares comprised in share options					
Name or category of participants	**Date of grant of share options ***	**As at 1 August 2015**	**Granted during the year**	**Lapsed during the year**	**As at 31 July 2016**	**Exercise period of share options**	**Exercise price of share options ** (per share)**
Director							
Chew Fook Aun	12/6/2012	80,479,564	—	—	80,479,564	12/6/2012-11/6/2020	HK$0.133
Lam Hau Yin, Lester	18/1/2013	160,959,129	—	—	160,959,129	18/1/2013-17/1/2023	HK$0.228
Cheng Shin How	18/1/2013	32,191,825	—	—	32,191,825	18/1/2013-17/1/2023	HK$0.228
Lee Tze Yan, Ernest	18/1/2013	32,000,000	—	—	32,000,000	18/1/2013-17/1/2023	HK$0.228
		305,630,518	—	—	305,630,518		
Other eligible participants (in aggregate)							
Batch 1	18/1/2013	210,575,476 ***	—	—	210,575,476	18/1/2013-17/1/2023	HK$0.228
Batch 2	26/7/2013	14,000,000	—	(3,000,000)	11,000,000	26/7/2013-25/7/2023	HK$0.190
Batch 3	16/1/2015	9,000,000	—	—	9,000,000	16/1/2015-15/1/2025	HK$0.160
		233,575,476	—	(3,000,000)	230,575,476		
		539,205,994	—	(3,000,000)	536,205,994		

* The share options vested on the date of grant.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.

*** Dr. Lam Kin Ngok, a substantial shareholder of the Company (pursuant to Part XV of the Securities and Futures Ordinance) was granted a share option to subscribe for a total of 16,095,912 shares of the Company on 18 January 2013.

Other than the lapse of share options comprising 3,000,000 underlying shares, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the 2003 Share Option Scheme and 2012 Share Option Scheme during the year. The fair value of the share options granted during the year ended 31 July 2015 was HK$371,000 (HK$0.0412 each on average), of which the Group recognised a share option expense of HK$371,000 (note 7) and HK$123,000 (before and after capitalisation to properties under development/investment properties under construction, respectively) for the year ended 31 July 2015.

30. SHARE OPTION SCHEMES (CONTINUED)

The fair value of equity-settled share options granted during the year ended 31 July 2015 was estimated as at the date of grant using a Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Date of grant	16 January 2015
Dividend yield (%)	1.856
Expected volatility (%)	48.787
Historical volatility (%)	48.787
Risk-free interest rate (%)	1.357
Expected life of options (years)	10
Closing share price (HK$ per share)	0.160

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

As at 31 July 2016, a total of 536,205,994 underlying shares comprised in share options were outstanding, of which 80,479,564 underlying shares relate to a share option granted under the 2003 Share Option Scheme and 455,726,430 underlying shares relate to share options granted under the 2012 Share Option Scheme, represented approximately 0.5% and 2.8% of the Company's shares in issue, respectively, as at that date.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 83 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, the subsidiaries and the joint venture of the Company, which are registered in the PRC, are required to transfer a certain percentage of their net profit after tax (after offsetting any prior years' losses, if any) to statutory reserve funds which are restricted as to use, until the balance of the statutory reserve funds reaches 50% of their respective registered capital.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisition of non-controlling interests

2016

On 3 November 2015, Hankey Development Limited ("**Hankey**"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with 上海匯貢經濟發展總公司 ("**上海匯貢**") to acquire 上海匯貢's interest in 1% of the registered capital of Shanghai Hankey Real Estate Development Company Limited ("**Shanghai Hankey**"), which directly holds Northgate Plaza I. The transaction was completed on 18 March 2016. Shanghai Hankey was an indirect 99%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

On 3 February 2016, Hankey entered into an agreement with 上海北城綜合經營部 ("**上海北城**") to acquire 上海北城's interest in 1% of the registered capital of Shanghai Zhabei, which directly holds Northgate Plaza II. The transaction was completed on 18 March 2016. Shanghai Zhabei was an indirect 99%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

2015

On 27 January 2015, Kingscord Investment Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement with 西藏城市發展投資股份有限公司 ("**西藏城市發展**") to acquire 西藏城市發展's interest in 5% of the registered capital of Shanghai Huxin Real Estate Development Company Limited ("**Shanghai Huxin**"), which directly holds Shanghai May Flower Plaza. The transaction was completed on 27 January 2015. Shanghai Huxin was an indirect 95%-owned subsidiary of the Company right before the completion of the transaction and became an indirect wholly-owned subsidiary of the Company upon completion of the transaction.

The following summarised the effect of the changes in the Group's ownership interest on the equity attributable to owners of the Company:

	2016 **HK$'000**	2015 HK$'000
Considerations paid for acquisition of non-controlling interests	**16,745**	62,806
Decrease in non-controlling interests	**(9,412)**	(51,808)
Decrease in equity attributable to owners of the Company	**7,333**	10,998

33. Contingent Liabilities

The Group has provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of property units developed by the Group. Pursuant to the 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 end-buyers in default. The Group's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the property ownership certificates for the relevant properties are issued and/or the end-buyers have fully repaid the mortgage loans. As at 31 July 2016, in respect of these guarantees, the contingent liabilities of the Group amounted to approximately HK$666,669,000 (2015: HK$120,159,000).

34. Operating Lease Arrangements

(a) As lessor

Certain properties of the Group were leased under operating lease arrangements with lease terms up to twenty years (2015: twenty years). The terms of the leases generally require the tenants to pay security deposits.

As at 31 July 2016, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**457,842**	455,132
In the second to fifth years, inclusive	**957,570**	802,919
After five years	**260,036**	164,475
	1,675,448	1,422,526

In addition, the operating lease arrangements for certain investment properties of the Group are contingent based on the turnover of the tenants pursuant to the terms and conditions as set out in the respective agreements. As the future turnover of the tenants could not be accurately determined, the relevant contingent rent has not been included above.

(b) As lessee

The Group leased certain office properties under operating lease arrangements with lease terms up to two years (2015: two years).

As at 31 July 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**1,829**	1,159
In the second to fifth years, inclusive	**582**	210
	2,411	1,369

35. Commitments

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments as at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
Contracted, but not provided for:		
Construction and development costs	**439,578**	338,169
Consideration for acquisition of an investment property	**187,053**	—
	626,631	338,169

36. Pledge of Assets

Details of the Group's bank loans and fixed rate senior notes, which were secured by certain assets of the Group, are included in notes 24 and 27 to the financial statements, respectively.

37. 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

	Notes	2016 HK$'000	2015 HK$'000
Lai Sun Garment (International) Limited ("**LSG**") and its subsidiaries:			
Rental and management fee expenses paid or payable	(i)	**2,349**	2,238
Rental and management fee income received or receivable	(ii)	**69**	73
Sharing of corporate salaries on a cost basis allocated from		**20,205**	18,764
Sharing of administrative expenses on a cost basis allocated from		**3,260**	3,686
Sharing of corporate salaries on a cost basis allocated to		**2,083**	1,570
Sharing of administrative expenses on a cost basis allocated to		**449**	342

37. Related Party Transactions (continued)

(a) Transactions with related parties (continued)

	Notes	2016 HK$'000	2015 HK$'000
eSun and its subsidiaries excluding the Group:			
Rental and management fee income received or receivable	(iii)	**8,482**	7,166
Advance of loans received	(iv)	**62,051**	77,745
Repayment of loans	(iv)	**56,000**	—
Sharing of corporate salaries on a cost basis allocated from		**2,210**	1,742
Sharing of administrative expenses on a cost basis allocated from		**190**	637
Sharing of corporate salaries on a cost basis allocated to		**1,031**	988
Sharing of administrative expenses on a cost basis allocated to		**31**	116
A subsidiary of CapitaLand Limited:			
Management and other service fees paid or payable	(v)	**9,444**	9,754
Joint ventures of the Group:			
Repayment of loans received		**50,031**	—
Advance of loans received	(vi)	**222,430**	372,897
Interest expenses paid or payable	(vi)	**15,138**	9,397

Notes:

(i) The related companies are LSD and a subsidiary of LSD, which are the subsidiaries of LSG. eSun, an associate of LSD, is the ultimate holding company of the Company. The Company is therefore also an associate of LSD. The terms of the rental and management fee were determined based on the agreements entered into between the Group and the related companies.

37. Related Party Transactions (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(ii) The related company is a subsidiary of LSD. The terms of the rental and management fee were determined based on the agreements entered into between the Group and the related company.

(iii) The related companies are subsidiaries of eSun where the Company does not hold, directly or indirectly, any equity interest in the related companies. The terms of the rental and management fee were determined based on the agreements entered into between the Group and the related companies.

(iv) The related company is a subsidiary of eSun where the Company does not hold, directly or indirectly, any equity interest in the related company. The terms of the loans are set out in note 26 to the financial statements.

(v) The related company is a subsidiary of CapitaLand Limited and the Company is an associate of CapitaLand Limited. The related company provides management and other services on the serviced apartment operation of the Group. The terms of the management and other service fees were determined based on the agreement entered into between the Group and the related company.

(vi) The related party is a joint venture of the Group, Guangzhou Beautiwin. The terms of the loans are determined based on the agreements entered into between the Group and Guangzhou Beautiwin and set out in note 18 to the financial statements.

Certain of the above related party transactions also constitute connected transactions or continuing connected transactions as defined in chapter 14A of the Listing Rules and their details are disclosed in the Report of the Directors.

(b) Outstanding balances with related parties

Details of the loans from a joint venture, advances from a former substantial shareholder of the Company and loans from a fellow subsidiary are included in notes 18, 25 and 26 to the financial statements, respectively.

(c) Guarantees provided by a related party

eSun, which is the Company's ultimate holding company, provided guarantees for 20% (being eSun's equity interest in the relevant borrowers excluding the remaining 80% interest held via the Group) of the outstanding balances of certain bank loan facilities of up to HK$2,753,623,000 in aggregate granted to certain subsidiaries of the Company as borrowers.

37. Related Party Transactions (continued)

(d) Compensation of key management personnel of the Group

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**24,715**	24,511
Pension scheme contributions	**129**	131
Total	**24,844**	24,642

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

38. Financial Instruments by Category

Financial assets

The Group's financial assets as at 31 July 2016 and 2015 were categorised as loans and receivables.

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
2016			
Creditors and accruals	**—**	**695,752**	**695,752**
Deposits received	**—**	**142,163**	**142,163**
Interest-bearing bank loans, secured	**—**	**3,035,518**	**3,035,518**
Loans from a joint venture	**—**	**572,758**	**572,758**
Advances from a former substantial shareholder	**—**	**54,675**	**54,675**
Loans from a fellow subsidiary	**—**	**221,714**	**221,714**
Fixed rate senior notes	**—**	**2,092,741**	**2,092,741**
Derivative financial instruments	**210,068**	**—**	**210,068**
	210,068	**6,815,321**	**7,025,389**
2015			
Creditors and accruals	—	543,207	543,207
Deposits received	—	122,214	122,214
Interest-bearing bank loans, secured	—	3,021,147	3,021,147
Loans from a joint venture	—	372,897	372,897
Advances from a former substantial shareholder	—	58,198	58,198
Loans from a fellow subsidiary	—	229,244	229,244
Fixed rate senior notes	—	2,220,914	2,220,914
Derivative financial instruments	111,654	—	111,654
	111,654	6,567,821	6,679,475

39. Fair Values and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 July 2016 HK$'000	31 July 2015 HK$'000	**31 July 2016 HK$'000**	31 July 2015 HK$'000
Financial liabilities				
Derivative financial instruments	**210,068**	111,654	**210,068**	111,654
Fixed rate senior notes	**2,092,741**	2,220,914	**2,097,984**	2,157,600
	2,302,809	2,332,568	**2,308,052**	2,269,254

Each year, the Group's management appoints external valuers to be responsible for the external valuations of the Group's derivative financial instruments (the "**Financial Instrument Valuers**"). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the Financial Instrument Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(i) The fair values of fixed rate senior notes are based on quoted market prices; and

(ii) Derivative financial instruments, being the cross currency swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot rates and interest rate curves. The carrying amounts of the derivative financial instruments are the same as their fair values.

Other than the above financial liabilities, the carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 July 2016 and 31 July 2015.

Fair value hierarchy

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

2016

	Valuation techniques	Significant unobservable inputs	Value of unobservable inputs	Notes
Derivative financial instruments — CCS	Discounted cash flow with swaption approach	Expected exposure at default — counterparty	HK$0.00 to HK$4.97 million	1
		Expected exposure at default — the Company	HK$114.77 million to HK$121.22 million	2
		Credit spread — counterparty	10.91 basis point to 230 basis point	3
		Credit spread — the Company	377.37 basis point to 715.13 basis point	4
		Loss given default ratio — counterparty non-performance risk	80%	5
		Loss given default ratio — own credit risk	60%	6

2015

	Valuation techniques	Significant unobservable inputs	Value of unobservable inputs	Notes
Derivative financial instruments — CCS	Discounted cash flow with swaption approach	Expected exposure at default — counterparty	HK$0.01 to HK$8.1 million	1
		Expected exposure at default — the Company	HK$69.91 million to HK$88.97 million	2
		Credit spread — counterparty	14.26 basis point to 129.43 basis point	3
		Credit spread — the Company	571.08 basis point to 827.64 basis point	4
		Loss given default ratio — counterparty non-performance risk	80%	5
		Loss given default ratio — own credit risk	60%	6

Notes:

1. The higher the expected exposure at default — counterparty, the lower the fair value of CCS
2. The higher the expected exposure at default — the Company, the higher the fair value of CCS
3. The higher the credit spread — counterparty, the lower the fair value of CCS
4. The higher the credit spread — the Company, the higher the fair value of CCS
5. The higher the loss given default ratio — counterparty, the lower the fair value of CCS
6. The higher the loss given default ratio — the Company, the higher the fair value of CCS

39. Fair Values and Fair Value Hierarchy of Financial Instruments (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value

As at 31 July 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Derivative financial instruments	**—**	**—**	**210,068**	**210,068**

As at 31 July 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Derivative financial instruments	—	—	111,654	111,654

The Group did not have any financial assets measured at fair value as at 31 July 2016 and 31 July 2015.

During the years ended 31 July 2016 and 31 July 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. The movement in the financial liabilities arising from the CCS is disclosed in note 23 to the financial statements.

Liabilities for which fair values are disclosed

The Group's financial liabilities for which fair values are disclosed include fixed rate senior notes, fair value of which are based on quoted market prices and are categorised in Level 1.

40. Financial Risk Management Objectives and Policies

The principal financial assets held by the Group comprise pledged and restricted time deposits and bank balances and cash and cash equivalents. Management will, based on the Group's projected cash flow requirements, determine the types and the levels of these financial assets with a view to maintaining an appropriate level of fundings for the Group's operations and enhancing the returns generated from these financial assets. The Group's principal financial liabilities are bank loans and fixed rate senior notes.

The Group will procure various types and levels of such financial liabilities in order to maintain sufficient fundings for the Group's daily operations and to cope with expenditures incurred for various properties under development for sale or investment purposes. In addition, the Group has various other financial assets and liabilities such as debtors and creditors which arise directly from its daily operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. Management of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group adopts relatively conservative strategies on its risk management. During the year ended 31 July 2013, the Group entered into cross currency swap agreements to manage the foreign currency risk arising from the Group's fixed rate senior notes. The Group does not hold or issue derivative financial instruments for trading purposes.

The policies are summarised as follows:

(a) Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in RMB, US$ and HK$. The Group, with HK$ as its presentation currency, is exposed to foreign currency risk arising from the exposure of HK$ against US$ and RMB, respectively. Considering that HK$ is pegged against US$, the Group believes that the corresponding exposure to US$ exchange rate fluctuation is nominal. However, the Group has a net exchange exposure to RMB as the Group's assets are principally located in Mainland China and the revenues are predominantly in RMB.

The Group entered into CCS in respect of the 2013 Notes to minimise the foreign currency exposures as detailed in note 23 to the financial statements. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider other appropriate hedging measures in future as may be necessary.

40. Financial Risk Management Objectives and Policies (continued)

(a) Foreign currency risk (continued)

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the post-tax profit and equity (due to changes in the fair value of monetary assets and liabilities) of the Group.

	Change in exchange rate	Impact on post-tax profit HK$'000	Impact on equity* HK$'000
2016			
If US$/HK$ weakens against RMB	**5%**	**9,287**	**3,165**
If US$/HK$ strengthens against RMB	**5%**	**(8,402)**	**(2,891)**
2015			
If US$/HK$ weakens against RMB	5%	24,723	16,046
If US$/HK$ strengthens against RMB	5%	(23,490)	(15,632)

* excluding amounts attributable to non-controlling interests

(b) 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 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.

40. Financial Risk Management Objectives and Policies (continued)

(b) Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the post-tax profit (through the impact on floating rate borrowings, net of amounts capitalised to properties under development, investment properties under construction and construction in progress) and the equity of the Group.

	Change in interest rate	Impact on post-tax profit HK$'000	Impact on equity* HK$'000
2016			
	+0.25%	**(4,800)**	**(4,800)**
	-0.25%	**4,800**	**4,800**
2015			
	+0.25%	(5,300)	(5,300)
	-0.25%	5,300	5,300

* excluding amounts attributable to non-controlling interests

(c) Liquidity risk

The Group monitors its risk of a shortage of funds by regularly reviewing its cash flow forecast. The cash flow forecast considers the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

40. Financial Risk Management Objectives and Policies (continued)

(c) Liquidity risk (continued)

The maturity profile of the financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2016				
Creditors and accruals	**695,752**	**—**	**—**	**695,752**
Deposits received	**17,774**	**124,389**	**—**	**142,163**
Interest-bearing bank loans, secured	**428,747**	**3,029,817**	**136,512**	**3,595,076**
Loans from a joint venture	**362,766**	**234,340**	**—**	**597,106**
Advances from a former substantial shareholder	**—**	**54,675**	**—**	**54,675**
Loans from a fellow subsidiary	**—**	**221,714**	**—**	**221,714**
Fixed rate senior notes	**144,872**	**2,213,877**	**—**	**2,358,749**
Inflows of derivative financial instruments	**(144,872)**	**(2,213,877)**	**—**	**(2,358,749)**
Outflows of derivative financial instruments	**138,831**	**2,365,136**	**—**	**2,503,967**
	1,643,870	**6,030,071**	**136,512**	**7,810,453**
2015				
Creditors and accruals	543,207	—	—	543,207
Deposits received	18,845	103,369	—	122,214
Interest-bearing bank loans, secured	2,617,685	550,216	202,925	3,370,826
Loans from a joint venture	372,897	—	—	372,897
Advances from a former substantial shareholder	—	58,198	—	58,198
Loans from a fellow subsidiary	—	229,244	—	229,244
Fixed rate senior notes	154,206	2,510,709	—	2,664,915
Inflows of derivative financial instruments	(154,206)	(2,510,709)	—	(2,664,915)
Outflows of derivative financial instruments	139,547	2,516,874	—	2,656,421
	3,692,181	3,457,901	202,925	7,353,007

The Group is also exposed to liquidity risk through the granting of financial guarantees, further details of which are disclosed in note 33 to the financial statements. The earliest period in which the guarantees could be called is less than 12 months.

40. Financial Risk Management Objectives and Policies (continued)

(d) Credit risk

The Group maintains various credit policies for different business operations as described in note 19. In addition, trade debtor balances are being closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

(e) Capital management

The Group manages its capital structure to ensure that the Group will be able to continue to operate as a going concern while maximising the return to stakeholders through the setting up and maintenance of an optimal debt and equity capital structure. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group mainly consists of fixed rate senior notes, bank and other borrowings, and equity attributable to owners of the Company comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. They will take into consideration the cost of capital and the risks associated with each class of capital prevailing in the market. Based on recommendations of the directors, the Group will balance its overall capital structure through various types of equity fund raising exercises as well as maintaining of appropriate types and levels of debts.

40. Financial Risk Management Objectives and Policies (continued)

(e) Capital management (continued)

The Group monitors capital using, inter alia, a gearing ratio which is net debt divided by net assets attributable to owners of the Company. Net debt includes interest-bearing bank loans, advances from a former substantial shareholder, fixed rate senior notes, loans from a fellow subsidiary and loans from a joint venture, less pledged and restricted time deposits and bank balances and cash and cash equivalents. The gearing ratio as at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
Interest-bearing bank loans, secured	**3,035,518**	3,021,147
Advances from a former substantial shareholder	**54,675**	58,198
Fixed rate senior notes	**2,092,741**	2,220,914
Loans from a fellow subsidiary	**221,714**	229,244
Loans from a joint venture	**572,758**	372,897
Less:		
Pledged and restricted time deposits and bank balances	**(1,066,374)**	(1,292,830)
Cash and cash equivalents	**(2,546,240)**	(1,571,281)
Net debt	**2,364,792**	3,038,289
Net assets attributable to owners of the Company	**13,314,767**	13,466,353
Gearing ratio	**18%**	23%

41. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**9,580,944**	9,310,133
CURRENT ASSETS		
Deposits and prepayments	**5,450**	19,726
Pledged bank balances	**31,458**	284,542
Cash and cash equivalents	**248,946**	246,841
Total current assets	**285,854**	551,109
CURRENT LIABILITIES		
Creditors and accruals	**47,063**	44,533
Due to subsidiaries	**390**	390
Interest-bearing bank loan, secured	**168,295**	1,506,023
Total current liabilities	**215,748**	1,550,946
NET CURRENT ASSETS/(LIABILITIES)	**70,106**	(999,837)
TOTAL ASSETS LESS CURRENT LIABILITIES	**9,651,050**	8,310,296
NON-CURRENT LIABILITIES		
Fixed rate senior notes	**2,092,741**	2,220,914
Interest-bearing bank loan, secured	**1,167,292**	—
Derivative financial instruments	**210,068**	111,654
Total non-current liabilities	**3,470,101**	2,332,568
	6,180,949	5,977,728
EQUITY		
Issued capital	**1,619,770**	1,612,968
Reserves (note)	**4,561,179**	4,364,760
	6,180,949	5,977,728

41. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Hedge reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 August 2014		4,066,482	29,677	(9,558)	(6,656)	228,505	4,308,450
Profit for the year		—	—	—	—	104,250	104,250
Equity settled share option arrangements		—	371	—	—	—	371
Release of reserve upon lapse of share options		—	(454)	—	—	454	—
Shares issued in lieu of cash dividend	29	1,605	—	—	—	—	1,605
Final 2014 dividend paid		—	—	—	—	(49,916)	(49,916)
As at 31 July 2015 and 1 August 2015		4,068,087	29,594	(9,558)	(6,656)	283,293	4,364,760
Profit for the year		—	—	—	—	201,418	201,418
Release of reserve upon lapse of share options		—	(170)	—	—	170	—
Shares issued in lieu of cash dividend	29	1,170	—	—	—	—	1,170
Net gain on cash flow hedges	23	—	—	—	47,059	—	47,059
Final 2015 dividend paid		—	—	—	—	(53,228)	(53,228)
As at 31 July 2016		**4,069,257**	**29,424**	**(9,558)**	**40,403**	**431,653**	**4,561,179**

42. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Canvex Limited	Hong Kong	HK$2	—	100	Property investment
Eastern Power Limited	Hong Kong	HK$100,000	—	100	Investment holding
Eternal Medal Limited	Hong Kong	HK$1	—	100	Investment holding
Fore Bright Limited	Hong Kong	HK$1	—	100	Investment holding
Frank Light Development Limited	Hong Kong	HK$19,999,999	—	100	Investment holding
Gentle Code Limited	Hong Kong	HK$1	—	100	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Gentle Holdings Limited	Hong Kong	HK$1	—	100	Investment holding
Goldthorpe Limited *	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Good Strategy Limited	British Virgin Islands/ Mainland China	US$1	—	100	Property investment
Grand Wealth Limited	Hong Kong	HK$2	—	100	Investment holding
Grosslink Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Guangzhou Gentle Code Real Estate Company Limited @ *	PRC/ Mainland China	US$22,830,000##	—	100	Property investment
Guangzhou Gentle Real Estate Company Limited @ *	PRC/ Mainland China	US$17,080,000##	—	100	Property development
Guangzhou Grand Wealth Properties Limited µ *	PRC/ Mainland China	HK$280,000,000##	—	100	Property development and investment
Guangzhou Guang Bird Property Development Limited ("**Guangzhou Guang Bird**") µ *	PRC/ Mainland China	US$79,600,000##	—	100	Property development and investment
Guangzhou Honghui Real Estate Development Company Limited µ *	PRC/ Mainland China	RMB79,733,004##	—	100	Property development and investment
Guangzhou Jadepress Real Estate Company Limited @ *	PRC/ Mainland China	US$19,150,000##	—	100	Property development and investment
Guangzhou Jieli Real Estate Company Limited @ *	PRC/ Mainland China	HK$168,000,000##	—	100	Property investment
Hankey Development Limited	Hong Kong	HK$10,000	—	100	Investment holding
Jadepress Limited	Hong Kong	HK$1	—	100	Investment holding
Kingscord Investment Limited	Hong Kong	HK$2	—	100	Investment holding

42. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lai Fung Company Limited	Hong Kong	HK$20	100	—	Investment holding
Manful Concept Limited	Hong Kong	HK$2	—	100	Investment holding
Nicebird Company Limited	Hong Kong	HK$2	—	100	Investment holding
Shanghai Hankey Real Estate Development Company Limited ("**Shanghai Hankey**") @	PRC/ Mainland China	US$21,600,000##	—	100	Property investment
Shanghai HKP Property Management Limited # *	PRC/ Mainland China	US$150,000##	—	100	Property management
Shanghai Hu Xin Real Estate Development Company Limited @	PRC/ Mainland China	US$40,000,000##	—	100	Property development and investment
Shanghai Li Xing Real Estate Development Company Limited # *	PRC/ Mainland China	US$36,000,000##	—	100	Property investment
Shanghai Wa Yee Real Estate Development Company Limited # *	PRC/ Mainland China	US$10,000,000##	70	25	Property development and investment
Shanghai Zhabei Plaza Real Estate Development Company Limited ("**Shanghai Zhabei**") @	PRC/ Mainland China	US$36,000,000##	—	100	Property investment
Sunlite Investment Limited	Hong Kong	HK$2	—	100	Investment holding
Wide Angle Development Limited	Hong Kong	HK$2	—	100	Investment holding
Winfield Concept Limited	Hong Kong	HK$10,000	—	80	Investment holding
Zhongshan Bao Li Properties Development Company Limited @ *	PRC/ Mainland China	HK$460,000,000##	—	100	Property development and investment

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
廣州高樂物業管理有限公司ø*	PRC/ Mainland China	RMB1,100,000##	—	100	Property management
上海麗港物業管理有限公司ø*	PRC/ Mainland China	RMB500,000##	—	100	Property management
上海麗星房地產發展有限公司@*	PRC/ Mainland China	RMB630,000,000##	—	100	Property development
中山高樂物業管理有限公司ø*	PRC/ Mainland China	RMB500,000##	—	100	Property management
珠海横琴麗新文創天地有限公司(「**麗新文創**」)@*	PRC/ Mainland China	RMB1,900,000,000##	—	80	Property development and investment

* Subsidiaries whose statutory financial statements were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

µ Registered as co-operative joint ventures under the laws of the PRC

\# Registered as equity joint ventures under the laws of the PRC

\#\# The registered capital of these subsidiaries were fully paid up, except for Guangzhou Guang Bird, Shanghai Hankey, Shanghai Zhabei and 麗新文創 which capital of approximately US$13,247,000 (equivalent to approximately HK$102,800,000), US$9,800,000 (equivalent to approximately HK$76,048,000), US$15,000,000 (equivalent to approximately HK$116,400,000) and RMB760,000,000 (equivalent to approximately HK$889,721,000), respectively was unpaid as at 31 July 2016. Subsequent to the reporting date, the registered capital of Shanghai Hankey and Shanghai Zhabei of US$2,100,000 (equivalent to approximately HK$16,296,000) each has been paid up.

@ Registered as wholly-foreign-owned enterprises under the laws of the PRC

ø Registered as domestic enterprises under the laws of the PRC

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.

43. Particulars of Joint Ventures

Particulars of the Group's material joint ventures as at 31 July 2016 are as follows:

Name	Place of incorporation/ registration and business	Class of shares held	Percentage of ownership interests attributable to the Group	Principal activities
Beautiwin Limited	Hong Kong	Ordinary	50	Investment holding
Guangzhou Beautiwin Real Estate Development Company Limited ("**Guangzhou Beautiwin**") **	PRC/ Mainland China	— *	47.5	Property development

* This joint venture has registered capital rather than issued share capital.

** The statutory financial statements of this joint venture were not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The Company, through its wholly-owned subsidiaries, owns 50% equity interest in Beautiwin Limited, which in turn, owns 95% equity interest in Guangzhou Beautiwin. Accordingly, the Group effectively owns 50% and 47.5% equity interest in Beautiwin Limited and Guangzhou Beautiwin, respectively.

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 19 October 2016.

Independent Auditor's Report

To the members of Lai Sun Development Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Lai Sun Development Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 90 to 183, which comprise the consolidated statement of financial position as at 31 July 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 July 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis For Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of construction in progress	
Construction in progress mainly represents a hotel project and is stated at cost less impairment losses, if any. The carrying amount of construction in progress recorded as property, plant and equipment as at 31 July 2017 was approximately HK$3,469 million. Significant judgements and assumptions, including those related to cash flow projections, such as the forecast average daily room rate and occupancy rate, are required to assess whether a provision for impairment is required. To support management's impairment assessment, the Group engaged an external valuer to perform valuation on the construction in progress. Related disclosures for construction in progress are disclosed in note 14 to the consolidated financial statements.	Our audit procedures included, among others, involving our internal valuation specialists to assist us to evaluate the assumptions and methodologies used in the valuation. We also evaluated the objectivity, independence and competency of the valuer.
Estimation of fair values of investment properties	
Investment properties are stated at fair value. The carrying amount of investment properties as at 31 July 2017 was approximately HK$16,447 million. Significant judgements and assumptions are required to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged external valuers to perform valuations on the investment properties at the end of the reporting period. Related disclosures for investment properties are disclosed in note 16 to the consolidated financial statements.	Our audit procedures included, among others, involving our internal valuation specialists to assist us to evaluate the assumptions and methodologies used in the valuations. We also evaluated the objectivity, independence and competency of the valuers. We then assessed the Group's disclosures of investment properties.

Other Information Included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Law Fu Yuen, Patrick.

Ernst & Young
Certified Public Accountants
Hong Kong

19 October 2017

Consolidated Income Statement

Year ended 31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
TURNOVER	6	**1,704,080**	1,868,334
Cost of sales		**(735,959)**	(861,722)
Gross profit		**968,121**	1,006,612
Other revenue	6	**54,416**	68,235
Selling and marketing expenses		**(35,746)**	(28,520)
Administrative expenses		**(280,214)**	(249,995)
Other operating expenses	7(b)	**(293,003)**	(219,826)
Fair value gains on investment properties, net	16	**1,238,092**	51,539
Reversal of provision for tax indemnity		**142,451**	—
PROFIT FROM OPERATING ACTIVITIES	7(a)	**1,794,117**	628,045
Finance costs	8	**(175,608)**	(178,290)
Share of profits and losses of associates		**177,940**	17,233
Share of profits and losses of joint ventures		**837,413**	770,469
Loss on deemed disposal of interest in an associate	19(a)	**(573,121)**	—
Discount on acquisition of additional interest in an associate	19(a)	**142,822**	—
PROFIT BEFORE TAX		**2,203,563**	1,237,457
Tax	11	**(76,450)**	(57,691)
PROFIT FOR THE YEAR		**2,127,113**	1,179,766
Attributable to:			
Owners of the Company		**2,093,572**	1,148,390
Non-controlling interests		**33,541**	31,376
		2,127,113	1,179,766
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		(Adjusted)
Basic		**HK$3.465**	HK$2.269
Diluted		**HK$3.455**	HK$2.267

Consolidated Statement of Comprehensive Income

Year ended 31 July 2017

	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR	**2,127,113**	1,179,766
OTHER COMPREHENSIVE INCOME/(EXPENSE) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS:		
Changes in fair values of available-for-sale financial assets	**205,655**	131,108
Exchange realignments	**9,692**	(174,440)
Share of other comprehensive expense of associates	**(54,877)**	(244,302)
Share of other comprehensive income of a joint venture	**908**	—
Release of reserves upon deemed disposal of interest in an associate	**49,192**	—
Release of reserves upon disposal of associates	**—**	(31)
OTHER COMPREHENSIVE INCOME/(EXPENSE)FOR THE YEAR	**210,570**	(287,665)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,337,683**	892,101
Attributable to:		
Owners of the Company	**2,304,069**	860,672
Non-controlling interests	**33,614**	31,429
	2,337,683	892,101

Consolidated Statement of Financial Position

31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,034,466**	2,983,985
Prepaid land lease payments	15	**19,873**	20,901
Investment properties	16	**16,447,014**	15,147,376
Properties under development for sale	17	**1,571,635**	1,322,403
Goodwill	18	**5,161**	5,161
Interests in associates	19(a)	**3,555,876**	3,660,835
Interests in joint ventures	19(b)	**7,224,183**	6,754,353
Available-for-sale financial assets	20	**1,589,670**	1,382,026
Pledged bank balances and time deposits	21	**69,675**	216,241
Deposits paid and other receivables	22	**231,868**	181,062
Total non-current assets		**34,749,421**	31,674,343
CURRENT ASSETS			
Completed properties for sale	23	**252,121**	321,509
Inventories		**31,327**	25,899
Debtors, deposits paid and other receivables	24	**530,416**	177,008
Pledged bank balances and time deposits	21	**213,640**	—
Cash and cash equivalents	21	**2,664,066**	2,354,682
Total current assets		**3,691,570**	2,879,098
CURRENT LIABILITIES			
Creditors, deposits received and accruals	25	**452,005**	460,588
Tax payable		**119,062**	132,282
Guaranteed notes	26	**2,731,230**	—
Bank borrowings	27	**157,582**	126,709
Total current liabilities		**3,459,879**	719,579
NET CURRENT ASSETS		**231,691**	2,159,519
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,981,112**	33,833,862

	Notes	**2017 HK$'000**	2016 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings	27	**6,748,399**	5,275,720
Guaranteed notes	26	**—**	2,709,227
Deferred tax	28	**141,291**	127,891
Provision for tax indemnity	33(b)	**93,000**	729,387
Long term deposits received and other payables		**886,435**	90,063
Deferred rental		**7,448**	9,724
Total non-current liabilities		**7,876,573**	8,942,012
		27,104,539	24,891,850
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	**4,063,736**	4,050,252
Investment revaluation reserve		**1,442,513**	1,241,566
Share option reserve		**64,693**	65,633
Hedging reserve		**1,852**	9,114
Capital reduction reserve	29	**4,692**	4,692
General reserve	29	**646,700**	646,700
Other reserve		**215,998**	233,252
Statutory reserve		**46,240**	28,996
Exchange fluctuation reserve		**(382,327)**	(399,139)
Retained profits		**20,495,693**	18,476,669
		26,599,790	24,357,735
Non-controlling interests		**504,749**	534,115
		27,104,539	24,891,850

Chew Fook Aun
Director

Lau Shu Yan, Julius
Director

Consolidated Statement of Changes in Equity

Year ended 31 July 2017

	Attributable to owners of the Company												
	Share capital HK$'000	Investment revaluation reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Capital reduction reserve HK$'000	General reserve HK$'000	Other reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 August 2015	3,135,561	1,117,849	65,172	(963)	4,692	646,700	263,684	24,518	22,373	17,382,957	22,662,543	441,031	23,103,574
Profit for the year	–	–	–	–	–	–	–	–	–	1,148,390	1,148,390	31,376	1,179,766
Other comprehensive income/(expense) for the year:													
Change in fair values of available-for-sale financial assets	–	131,108	–	–	–	–	–	–	–	–	131,108	–	131,108
Exchange realignments	–	–	–	–	–	–	–	–	(174,440)	–	(174,440)	–	(174,440)
Share of other comprehensive (expense)/income of associates	–	(7,391)	–	10,077	–	–	–	–	(247,041)	–	(244,355)	53	(244,302)
Release of reserves upon disposal of an associate	–	–	–	–	–	–	–	–	(31)	–	(31)	–	(31)
Total comprehensive income/(expense) for the year	–	123,717	–	10,077	–	–	–	–	(421,512)	1,148,390	860,672	31,429	892,101
Final 2015 dividend declared	–	–	–	–	–	–	–	–	–	(50,236)	(50,236)	–	(50,236)
Share of reserve movements of associates	–	–	–	–	–	–	(26,495)	4,478	–	(4,442)	(26,459)	–	(26,459)
Recognition of share-based payments	–	–	461	–	–	–	–	–	–	–	461	–	461
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	35,060	35,060
Shares issued in lieu of cash dividend (note 29(a))	2,008	–	–	–	–	–	–	–	–	–	2,008	–	2,008
Net proceeds from rights issue (note 29(b))	912,683	–	–	–	–	–	–	–	–	–	912,683	–	912,683
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(61,005)	(61,005)
Acquisition of subsidiaries (note 42)	–	–	–	–	–	–	(2,056)	–	–	–	(2,056)	17,763	15,707
Acquisition of non-controlling interests (note 39)	–	–	–	–	–	–	(13,398)	–	–	–	(13,398)	(61,845)	(75,243)
Disposal of partial interest in a subsidiary	–	–	–	–	–	–	11,517	–	–	–	11,517	131,682	143,199
At 31 July 2016 and at 1 August 2016	4,050,252	1,241,566	65,633	9,114	4,692	646,700	233,252	28,996	(399,139)	18,476,669	24,357,735	534,115	24,891,850
Profit for the year	–	–	–	–	–	–	–	–	–	2,093,572	2,093,572	33,541	2,127,113
Other comprehensive income/(expense) for the year:													
Change in fair values of available-for-sale financial assets	–	205,655	–	–	–	–	–	–	–	–	205,655	–	205,655
Exchange realignments	–	–	–	–	–	–	–	–	9,692	–	9,692	–	9,692
Share of other comprehensive (expense)/income of associates	–	(2,473)	–	(6,892)	–	–	–	–	(45,585)	–	(54,950)	73	(54,877)
Share of other comprehensive expense of a joint venture	–	–	–	–	–	–	–	–	908	–	908	–	908
Release of reserves upon deemed disposal of interest in an associate	–	(2,235)	–	(370)	–	–	–	–	51,797	–	49,192	–	49,192
Total comprehensive income/(expense) for the year	–	200,947	–	(7,262)	–	–	–	–	16,812	2,093,572	2,304,069	33,614	2,337,683
Final 2016 dividend declared (note 12)	–	–	–	–	–	–	–	–	–	(57,340)	(57,340)	–	(57,340)
Share of reserve movements of associates	–	–	–	–	–	–	(17,254)	17,244	–	(17,208)	(17,218)	–	(17,218)
Recognition of share-based payments	–	–	188	–	–	–	–	–	–	–	188	–	188
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	484	484
Shares issued in lieu of cash dividend (note 29(c))	9,651	–	–	–	–	–	–	–	–	–	9,651	–	9,651
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(62,720)	(62,720)
Share options exercised	3,833	–	(1,128)	–	–	–	–	–	–	–	2,705	–	2,705
Repayment to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(744)	(744)
At 31 July 2017	4,063,736	1,442,513	64,693	1,852	4,692	646,700	215,998	46,240	(382,327)	20,495,693	26,599,790	504,749	27,104,539

Consolidated Statement of Cash Flows

Year ended 31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,203,563**	1,237,457
Adjustments for:			
Finance costs	8	**175,608**	178,290
Share of profits and losses of associates		**(177,940)**	(17,233)
Share of profits and losses of joint ventures		**(837,413)**	(770,469)
Loss on deemed disposal of interest in an associate		**573,121**	—
Discount on acquisition of additional interest in an associate		**(142,822)**	—
Fair value gains on investment properties, net		**(1,238,092)**	(51,539)
Reversal of provision for tax indemnity	33(b)	**(142,451)**	—
Depreciation	7(a)	**76,991**	62,119
Amortisation of prepaid land lease payments	7(a)	**1,028**	1,027
Loss on disposal of items of property, plant and equipment	7(a)	**1,222**	100
Gain on bargain purchase upon acquisition of a subsidiary	6	**—**	(3,128)
Gain on disposal of associates	6	**—**	(5,338)
Fair value loss on a listed equity investment at fair value through profit or loss		**—**	4,247
Interest income	6	**(20,666)**	(12,623)
Dividend income from unlisted available-for-sale financial assets	6	**(23,240)**	(36,215)
Employee share option benefits	7(a)	**188**	461
Foreign exchange differences, net		**22,030**	6,308
		471,127	593,464
Increase in properties under development for sale		**(193,253)**	(625,625)
Increase in other loan receivables		**(19,412)**	(21,910)
Decrease in completed properties for sale		**69,388**	319,539
Increase in inventories		**(5,428)**	(3,224)
(Increase)/decrease in debtors, deposits paid and other receivables		**(395,095)**	2,897
Increase in creditors, deposits received and accruals		**787,198**	53,880
Cash generated from operations		**714,525**	319,021
Interest received		**20,666**	12,623
Interest paid on bank borrowings		**(118,666)**	(110,841)
Interest paid on guaranteed notes		**(155,368)**	(154,928)
Hong Kong profits tax paid		**(44,602)**	(64,271)
Overseas taxes paid		**(31,354)**	(23,827)
Net cash flows from/(used in) operating activities		**385,201**	(22,223)

Consolidated Statement of Cash Flows

Year ended 31 July 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(1,017,679)**	(540,870)
Additions to investment properties		**(47,535)**	(261,886)
Deposits paid for purchase of items of property, plant and equipment	22	**(2,538)**	(13,498)
Deposits paid for additions to investment properties	22	**(2,104)**	(6,578)
Acquisition of unlisted available-for-sale financial assets		**(6,907)**	(35,433)
Proceeds from disposal of an unlisted available-for-sale financial asset		**4,918**	—
Proceeds from disposal of items of property, plant and equipment		**2,800**	397
Acquisition of subsidiaries	42	**—**	33,248
Acquisition of additional interest in an associate		**(25,426)**	—
Acquisition of an associate		**(159,555)**	—
Advances to associates		**(187)**	(11,820)
Repayment from associates		**4,844**	2,080
Dividend received from an associate		**700**	—
Acquisition of a joint venture		**(114,099)**	—
Advances to joint ventures		**(154,500)**	(50,000)
Repayment from a joint venture		**637,090**	75
Dividends received from unlisted available-for-sale financial assets		**23,240**	36,215
Increase in pledged bank balances and time deposits		**(67,074)**	(30,774)
Settlement of tax indemnity		**(493,936)**	—
Net cash flows used in investing activities		**(1,417,948)**	(878,844)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings raised		**3,319,138**	3,823,089
Repayment of bank borrowings		**(1,851,844)**	(2,393,476)
Bank financing charges		**(19,144)**	(117,846)
Net proceeds from rights issue	29(b)	**—**	912,683
Proceeds from subscription of a rights issue of a subsidiary by non-controlling interests		**—**	45,122
Dividend paid		**(47,689)**	(48,228)
Dividends paid to non-controlling shareholders		**(62,720)**	(61,005)
Capital contribution from non-controlling shareholders of a subsidiary		**484**	35,060
Repayment to non-controlling shareholders of a subsidiary		**(744)**	—
Share options exercised		**2,705**	—
Net cash flows from financing activities		**1,340,186**	2,195,399
NET INCREASE IN CASH AND CASH EQUIVALENTS		**307,439**	1,294,332
Cash and cash equivalents at beginning of year		**2,354,682**	1,068,038
Effect of foreign exchange rate changes, net		**1,945**	(7,688)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,664,066**	2,354,682
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**971,795**	820,727
Non-pledged time deposits		**1,692,271**	1,533,955
		2,664,066	2,354,682

1. Corporate and Group Information

Lai Sun Development Company Limited (the "**Company**") is a limited liability company incorporated in Hong Kong with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Lai Sun Garment (International) Limited ("**LSG**"), a limited liability company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange.

During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") were involved in the following principal activities:

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

Details of the principal subsidiaries are set out in note 39 to the financial statements.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain available-for-sale financial assets 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 31 July 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised standards for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 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.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[2]
HK (IFRIC) Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
HK (IFRIC) Interpretation 23	*Uncertainty over Income Tax Treatments*[3]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 12 *Disclosure of Interests in Other Entities*[1]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 *First-time Adoption of HKFRSs*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKAS 28 *Investments in Associates and Joint Ventures*[2]

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

[1] *Effective for annual periods beginning on or after 1 January 2017*
[2] *Effective for annual periods beginning on or after 1 January 2018*
[3] *Effective for annual periods beginning on or after 1 January 2019*
[4] *No mandatory effective date yet determined but available for adoption*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position 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.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Investments in associates and joint ventures (continued)

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 July. 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.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties and certain available-for-sale financial assets at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development for sale, completed properties for sale, inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, but 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 an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Property, plant and equipment and depreciation (continued)

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

Hotel properties	Over the remaining lease terms
Leasehold buildings	Over the remaining lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	20%
Motor vehicles	17% - 25%
Computers	20% - 33%
Motor vessels	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised 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.

Construction in progress represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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. These include properties that are being constructed or developed for future use as investment properties. 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 end of the reporting period, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Properties under development for sale

Properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the construction or development of these properties is completed, these properties are reclassified to the appropriate categories of assets.

Completed properties for sale

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the income statement as other revenue in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial 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 loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement — is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies (continued)

Inventories

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

Cash and cash equivalents

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

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

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 end of the reporting period 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 relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

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

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

- when 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 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e., based on the expected manner as to how the properties will be recovered).

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

(a) revenue from the sale of properties is recognised when the significant risks and rewards of properties are transferred to the purchasers, which refers to the time when the construction of relevant properties has been completed and the properties are ready for delivery to the purchasers pursuant to the sales agreements, and collectability of the related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as deposits received;

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

(c) service income from hotel and restaurant operations and the provision of other related services is recognised when such services have been provided to customers;

(d) revenue from the sale of food and other operating items is recognised when the food and other operating items are sold to customers and the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the food and other operating items sold;

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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the 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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Binomial Option Pricing Model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Employee benefits (continued)

Share-based payments (continued)

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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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 year end is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the material expected future cost of such paid leave earned during the current financial year by the employees and carried forward.

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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.

The employees of the Group's subsidiaries which operate in Vietnam and the People's Republic of China (the "**PRC**") are required to participate in central pension schemes operated by the respective governments in Vietnam and the PRC. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Impairment of assets

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

Impairment of construction in progress

Construction in progress is stated at cost less impairment losses, if any. In determining whether there is any indication of impairment, the Group has to exercise judgement, particularly in assessing the appropriate key assumptions to be applied in preparing cash flow projections. To support the impairment assessment, the Group engaged an external valuer to perform valuation on the construction in progress. Changing the assumptions selected by the valuer to determine whether there is any indication of impairment, including those related to cash flow projections, such as the forecast average daily room rate and occupancy rate, could materially affect the net present value used in the impairment test. The carrying amount of construction in progress recorded as property, plant and equipment as at 31 July 2017 was approximately HK$3,469 million (2016: HK$2,413 million).

Provision for tax indemnity

Provision for tax indemnity is recognised when a present obligation (legal or constructive) has arisen as a result of tax liability arising from disposal of certain property interests in the PRC pursuant to certain indemnity deeds entered into by the Group and it is probable that such tax liability will be required to be settled. Management's judgement is required to determine (i) the estimated sales proceeds and outgoings; and (ii) the latest development plan and status of individual property development projects. Further details are included in note 33(b) to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, are described below.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Estimation of fair values of investment properties and available-for-sale financial assets

The best evidence of fair value is current prices in an active market for similar properties in the same location and condition and subject to similar leases and other contracts. In the absence of such information, management determines the amount within a range of reasonable fair value estimates. In making its judgement, management considers information from (i) independent valuations; (ii) current prices in an active market for properties of a different nature, condition or location by reference to available market information; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates 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 carrying amount at fair value of investment properties as at 31 July 2017 was approximately HK$16,447 million (2016: HK$15,147 million) and that of an available-for-sale financial asset, of which the principal asset is an investment property, as at 31 July 2017 was approximately HK$1,394 million (2016: HK$1,205 million).

Estimation of total budgeted costs and costs to completion for properties under development for sale

The total budgeted costs for properties under development for sale comprise (i) prepaid land lease payments; (ii) construction costs; and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development for sale, management refers to information such as (i) current offers from contractors and suppliers; and (ii) professional estimation on construction and material costs.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

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, 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 are 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.

4. Segment Information

For management purposes, the Group has the following reportable segments:

(a) the property development and sales segment engages in property development and sale of properties;

(b) the property investment segment engages in the leasing of investment properties;

(c) the hotel operation segment engages in the operation of and provision of consultancy services to hotels;

(d) the restaurant operation segment engages in the operation of and provision of consultancy services to restaurants; and

(e) the "others" segment mainly comprises the provision of property management services, leasing agency services, building services and luxury yachting business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that fair value gains on investment properties, interest income, finance costs, dividend income, share of profits and losses of associates, share of profits and losses of joint ventures, reversal of provision for tax indemnity, loss on deemed disposal of interest in an associate and discount on acquisition of additional interest in an associate are excluded from such measurement.

Segment assets mainly exclude interests in associates, interests in joint ventures, available-for-sale financial assets, pledged bank balances and time deposits, and certain cash and cash equivalents.

Segment liabilities mainly exclude bank borrowings, guaranteed notes, tax payable, deferred tax and provision for tax indemnity.

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

4. Segment Information (continued)

Segment revenue and results

The following table presents revenue and results for the Group's reportable segments:

	Property development and sales		Property investment		Hotel operation		Restaurant operation		Others		Eliminations		Consolidated	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Segment revenue:														
Sales to external customers	**89,245**	468,691	**686,748**	701,643	**412,343**	391,683	**481,529**	280,664	**34,215**	25,653	**—**	—	**1,704,080**	1,868,334
Intersegment sales	**—**	—	**16,473**	15,353	**90**	360	**97**	—	**24,899**	24,659	**(41,559)**	(40,372)	**—**	—
Other revenue	**4,813**	3,997	**2,310**	1,085	**280**	15	**426**	8,525	**11,120**	8,409	**—**	—	**18,949**	22,031
Total	**94,058**	472,688	**705,531**	718,081	**412,713**	392,058	**482,052**	289,189	**70,234**	58,721	**(41,559)**	(40,372)	**1,723,029**	1,890,365
Segment results	**(13,156)**	103,524	**556,098**	573,239	**70,697**	76,173	**(30,338)**	(27,851)	**(839)**	3,846	**—**	—	**582,462**	728,931
Interest income from bank deposits — unallocated													**10,211**	4,872
Unallocated revenue													**25,256**	41,332
Fair value gains on investment properties, net	**—**	—	**1,238,092**	51,539	**—**	—	**—**	—	**—**	—	**—**	—	**1,238,092**	51,539
Unallocated expenses													**(204,355)**	(198,629)
Reversal of provision of tax indemnity													**142,451**	—
Profit from operating activities													**1,794,117**	628,045
Finance costs													**(175,608)**	(178,290)
Share of profits and losses of associates	**33**	986	**—**	—	**—**	—	**(3,330)**	(7,670)	**—**	—	**—**	—	**(3,297)**	(6,684)
Share of profits and losses of associates — unallocated													**181,237**	23,917
Share of profits and losses of joint ventures	**(28,638)**	(4,127)	**859,570**	774,596	**—**	—	**—**	—	**6,481**	—	**—**	—	**837,413**	770,469
Loss on deemed disposal of interest in an associate													**(573,121)**	—
Discount on acquisition of additional interest in an associate													**142,822**	—
Profit before tax													**2,203,563**	1,237,457
Tax													**(76,450)**	(57,691)
Profit for the year													**2,127,113**	1,179,766

4. Segment Information (continued)

The following table presents the total assets and liabilities and other segment information for the Group's reportable segments:

	Property development and sales		Property investment		Hotel operation		Restaurant operation		Others		Consolidated	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Segment assets and liabilities												
Segment assets	**2,233,477**	1,690,614	**16,657,105**	15,312,609	**4,076,803**	3,070,692	**586,663**	626,357	**242,782**	152,583	**23,796,830**	20,852,855
Interests in associates	**5,890**	7,343	**—**	—	**159,478**	—	**(9,078)**	(1,061)	**—**	—	**156,290**	6,282
Interests in associates — unallocated											**3,399,586**	3,654,553
Interests in joint ventures	**1,116,246**	990,385	**5,986,447**	5,763,968	**—**	—	**—**	—	**121,490**	—	**7,224,183**	6,754,353
Unallocated assets											**3,864,102**	3,285,398
Total assets											**38,440,991**	34,553,441
Segment liabilities	**777,431**	62,467	**194,047**	187,129	**279,216**	195,510	**43,158**	47,472	**9,932**	6,163	**1,303,784**	498,741
Bank borrowings											**6,905,981**	5,402,429
Guaranteed notes											**2,731,230**	2,709,227
Other unallocated liabilities											**395,457**	1,051,194
Total liabilities											**11,336,452**	9,661,591
Other segment information												
Amortisation of prepaid land lease payments	**—**	—	**—**	—	**1,028**	1,027	**—**	—	**—**	—	**1,028**	1,027
Depreciation	**—**	225	**147**	137	**18,075**	17,205	**47,136**	33,773	**217**	95	**65,575**	51,435
Depreciation — unallocated											**11,416**	10,684
											76,991	62,119
Capital expenditure	**—**	—	**54,263**	261,888	**1,075,824**	565,472	**48,257**	96,217	**3,019**	155	**1,181,363**	923,732
Capital expenditure — unallocated											**4,244**	4,488
											1,185,607	928,220

4. Segment Information (continued)

Geographical information

The following table presents revenue and assets by geographical location of the assets:

	Hong Kong		United Kingdom		Vietnam		Others		Consolidated	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Segment revenue										
Sales to external customers	**1,156,603**	1,328,949	**136,304**	149,713	**407,257**	385,903	**3,916**	3,769	**1,704,080**	1,868,334
Other revenue	**18,317**	21,626	**493**	391	**81**	—	**58**	14	**18,949**	22,031
Total	**1,174,920**	1,350,575	**136,797**	150,104	**407,338**	385,903	**3,974**	3,783	**1,723,029**	1,890,365
Segment assets										
Non-current assets	**19,295,802**	16,876,046	**2,703,275**	2,512,864	**264,244**	263,781	**621**	985	**22,263,942**	19,653,676
Current assets	**1,133,371**	820,506	**72,756**	30,247	**323,208**	345,692	**3,553**	2,734	**1,532,888**	1,199,179
Total	**20,429,173**	17,696,552	**2,776,031**	2,543,111	**587,452**	609,473	**4,174**	3,719	**23,796,830**	20,852,855

Information about major customers

For both the years ended 31 July 2017 and 31 July 2016, there was no revenue derived from a single customer which contributed more than 10% of the Group's revenue for the respective years.

5. Related Party Transactions

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

(a) Transactions with related parties

		2017 HK$'000	2016 HK$'000
Rental income and building management fee received or receivable from eSun Holdings Limited ("**eSun**") and its subsidiaries (collectively the "**eSun Group**"), an associate	Note	**13,080**	11,966
Sharing of corporate salaries on a cost basis allocated to:			
— LSG		**7,735**	7,546
— the eSun Group		**45,203**	44,710
Sharing of administrative expenses on a cost basis allocated to:			
— LSG		**1,382**	1,826
— the eSun Group		**5,383**	6,129
Rental expenses and building management fees paid or payable to:			
— a fellow subsidiary	Note	**6,447**	—
— an associate of LSG	Note	**2,157**	2,087
— the eSun Group	Note	**64**	69
Sharing of corporate salaries on a cost basis allocated from:			
— LSG		**5,723**	5,545
— the eSun Group		**6,133**	5,196
Sharing of administrative expenses on a cost basis allocated from:			
— LSG		**17**	1
— the eSun Group		**1,200**	1,359
Underwriting commission paid to LSG		**—**	9,733

Note: These transactions were entered into based on terms stated in the respective agreements or contracts and were charged on bases mutually agreed by the respective parties.

Certain of the above related party transactions also constitute continuing connected transactions as defined in chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and their details are disclosed in the Report of the Directors.

5. Related Party Transactions (continued)

(b) Compensation of key management personnel of the Group

	2017 HK$'000	2016 HK$'000
Short term employee benefits	**30,873**	31,290
Post-employment benefits	**270**	264
Total compensation paid to key management personnel	**31,143**	31,554

Further details of directors' emoluments are included in note 9 to the financial statements.

6. Turnover and Other Revenue

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

An analysis of turnover and other revenue are as follows:

	2017 HK$'000	2016 HK$'000
Turnover		
Sale of properties	**89,245**	468,691
Rental income and building management fee	**686,748**	701,643
Hotel, restaurant and other operations	**928,087**	698,000
	1,704,080	1,868,334
Other revenue		
Interest income from bank deposits	**10,211**	4,872
Other interest income	**10,455**	7,751
Dividend income from unlisted available-for-sale financial assets	**23,240**	36,215
Gain on disposal of associates	**—**	5,338
Gain on bargain purchase upon acquisition of a subsidiary (note 42)	**—**	3,128
Others	**10,510**	10,931
	54,416	68,235

7. Profit From Operating Activities

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold		**169,622**	111,809
Cost of completed properties sold		**69,395**	336,139
Depreciation#	14	**76,991**	62,119
Amortisation of prepaid land lease payments*	15	**1,028**	1,027
Staff costs (including directors' remuneration — note 9):			
Wages and salaries		**364,588**	288,324
Pension scheme contributions		**11,132**	8,076
Employee share option benefits		**188**	461
		375,908	296,861
Auditor's remuneration		**3,750**	3,508
Loss on disposal of items of property, plant and equipment*		**1,222**	100
Minimum lease payments under operating leases		**61,120**	37,749
Contingent rents		**9,064**	4,264
Total operating lease payments^		**70,184**	42,013
Minimum lease income under operating leases		**(686,391)**	(701,230)
Contingent rents		**(357)**	(414)
Total operating lease income		**(686,748)**	(701,644)
Less: Outgoings		**98,404**	93,304
Net rental income		**(588,344)**	(608,340)
Foreign exchange differences, net*		**23,849**	6,625

Depreciation charge of approximately HK$71,793,000 (2016: HK$57,482,000) for property, plant and equipment is included in "other operating expenses" on the consolidated income statement.

^ Operating lease payments of approximately HK$61,979,000 (2016: HK$35,903,000) are included in "other operating expenses" on the consolidated income statement.

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

7. PROFIT FROM OPERATING ACTIVITIES (CONTINUED)

(b) Other than those mentioned in note 7(a) above, "other operating expenses" also included service fee for operation of a club in the Group's hotel operation in Vietnam of approximately HK$64,337,000 (2016: HK$64,616,000).

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank borrowings	**116,995**	111,396
Interest on guaranteed notes	**159,507**	159,085
Bank financing charges	**55,402**	41,839
	331,904	312,320
Less: Amount capitalised in a hotel development project (note 14)	**(100,317)**	(91,097)
Amount capitalised in properties under development for sale (note 17)	**(55,979)**	(42,933)
	175,608	178,290

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 4.40% (2016: 4.40%) has been applied to the expenditure on the individual assets for the year ended 31 July 2017.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**1,400**	1,325
Other emoluments:		
Salaries, allowances and benefits in kind	**29,473**	29,965
Pension scheme contributions	**270**	264
	29,743	30,229
	31,143	31,554

9. Directors' Remuneration (continued)

The remuneration paid to executive directors, non-executive directors and independent non-executive directors during the year were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2017				
Executive directors:				
Lam Kin Ngok, Peter	—	14,346	18	14,364
Chew Fook Aun	—	8,515	18	8,533
Lau Shu Yan, Julius^	—	4,851	216	5,067
Lam Hau Yin, Lester	—	1,761	18	1,779
	—	29,473	270	29,743
Non-executive directors:				
Lam Kin Ming	250	—	—	250
U Po Chu	250	—	—	250
	500	—	—	500
Independent non-executive directors:				
Ip Shu Kwan, Stephen	300	—	—	300
Lam Bing Kwan	300	—	—	300
Leung Shu Yin, William	300	—	—	300
	900	—	—	900
	1,400	29,473	270	31,143

9. DIRECTORS' REMUNERATION (CONTINUED)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2016				
Executive directors:				
Lam Kin Ngok, Peter	—	15,778	18	15,796
Chew Fook Aun	—	7,883	18	7,901
Lau Shu Yan, Julius^	—	4,538	210	4,748
Lam Hau Yin, Lester	—	1,766	18	1,784
	—	29,965	264	30,229
Non-executive directors:				
Lam Kin Ming	250	—	—	250
U Po Chu	250	—	—	250
	500	—	—	500
Independent non-executive directors:				
Ip Shu Kwan, Stephen	275	—	—	275
Lam Bing Kwan	275	—	—	275
Leung Shu Yin, William	275	—	—	275
	825	—	—	825
	1,325	29,965	264	31,554

^ Lau Shu Yan, Julius is also the chief executive officer of the Company.

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

10. Employees' Remuneration

The five highest paid employees during the year included three (2016: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries, allowances and benefits in kind	**6,995**	6,498
Pension scheme contributions	**36**	120
	7,031	6,618

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

	Number of employees	
	2017	2016
HK$2,000,001 to HK$2,500,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—
HK$4,000,001 to HK$4,500,000	**—**	1
HK$4,500,001 to HK$5,000,000	**1**	—

11. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

11. TAX (CONTINUED)

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong	**38,608**	38,494
Overseas	**21,630**	26,724
	60,238	65,218
Deferred tax (note 28)	**13,714**	6,933
Prior years' underprovision/(overprovision)		
Hong Kong	**632**	(20)
Overseas	**1,866**	(14,440)
	2,498	(14,460)
Tax charge for the year	**76,450**	57,691

A reconciliation of the tax charge applicable to profit before tax at the statutory rate for the location in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**2,203,563**	1,237,457
Less: Share of profits and losses of associates	**(177,940)**	(17,233)
Share of profits and losses of joint ventures	**(837,413)**	(770,469)
Profit before tax attributable to the Group	**1,188,210**	449,755
Tax at the statutory tax rate of 16.5% (2016: 16.5%)	**196,055**	74,210
Higher tax rate for other countries	**9,800**	2,433
Adjustments in respect of current tax of previous periods	**2,498**	(14,460)
Income not subject to tax	**(186,849)**	(38,124)
Expenses not deductible for tax purposes	**36,975**	33,078
Tax losses utilised from previous periods	**(3,714)**	(19,209)
Tax losses not recognised	**21,685**	19,763
Tax charge for the year	**76,450**	57,691

12. Dividend

	2017 HK$'000	2016 HK$'000
Final dividend paid in respect of the year ended 31 July 2016 (2016: final dividend paid in respect of the year ended 31 July 2015)	**57,340**	50,236
Proposed final dividend — HK10.00 cents per ordinary share (2016: HK0.19 cent per ordinary share before the effect of the Share Consolidation (as defined in note 29(e)) or HK9.50 cents per ordinary share after the effect of the Share Consolidation)	**60,509**	57,302

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 Owners of the Company

	2017 HK$'000	2016 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share	**2,093,572**	1,148,390
Effect of dilutive potential ordinary shares arising from adjustment to the share of profit of an associate based on dilution of its earnings per share	**(76)**	—
Earnings for the purpose of diluted earnings per share	**2,093,496**	1,148,390

	'000	'000 (Adjusted)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**604,123**	506,113
Effect of dilutive potential ordinary shares arising from share options	**1,772**	348
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**605,895**	506,461

13. Earnings Per Share Attributable to Owners of the Company (continued)

The exercise of share options of an associate and the conversion of the outstanding convertible notes issued by an associate have an anti-dilutive effect on the basic earnings per share as presented during the year ended 31 July 2016.

The number of shares for the purpose of earnings per share were calculated to reflect the Share Consolidation (as defined in note 29(e)). Comparative figures have also been adjusted on the assumption that the Share Consolidation had been effective in the prior year.

14. Property, Plant and Equipment

	Notes	Hotel properties HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:										
At 1 August 2015		357,035	237,627	119,049	125,361	29,173	13,028	53,594	1,857,654	2,792,521
Finance cost capitalised	8	—	—	—	—	—	—	—	91,097	91,097
Additions		—	—	45,891	35,024	686	2,879	1,885	463,826	550,191
Acquisition of subsidiaries	42	—	—	14,624	10,217	—	205	—	—	25,046
Disposals/write-off		—	—	(2,153)	(11,568)	(37)	(171)	—	—	(13,929)
At 31 July 2016 and 1 August 2016		357,035	237,627	177,411	159,034	29,822	15,941	55,479	2,412,577	3,444,926
Finance cost capitalised	8	—	—	—	—	—	—	—	100,317	100,317
Additions		—	—	37,888	30,331	3,784	2,949	24	956,201	1,031,177
Disposals/write-off		—	—	(15,487)	(14,667)	(32)	(845)	—	—	(31,031)
At 31 July 2017		**357,035**	**237,627**	**199,812**	**174,698**	**33,574**	**18,045**	**55,503**	**3,469,095**	**4,545,389**
Accumulated depreciation:										
At 1 August 2015		147,264	29,923	70,477	91,538	21,469	9,850	41,733	—	412,254
Depreciation provided during the year	7(a)	8,209	4,857	25,043	15,440	2,586	1,706	4,278	—	62,119
Disposals/write-off		—	—	(2,152)	(11,194)	(1)	(85)	—	—	(13,432)
At 31 July 2016 and 1 August 2016		155,473	34,780	93,368	95,784	24,054	11,471	46,011	—	460,941
Depreciation provided during the year	7(a)	8,210	4,858	31,246	22,778	3,239	2,131	4,529	—	76,991
Disposals/write-off		—	—	(13,705)	(12,463)	(6)	(835)	—	—	(27,009)
At 31 July 2017		**163,683**	**39,638**	**110,909**	**106,099**	**27,287**	**12,767**	**50,540**	**—**	**510,923**
Net carrying amount:										
At 31 July 2017		**193,352**	**197,989**	**88,903**	**68,599**	**6,287**	**5,278**	**4,963**	**3,469,095**	**4,034,466**
At 31 July 2016		201,562	202,847	84,043	63,250	5,768	4,470	9,468	2,412,577	2,983,985

At 31 July 2017, the Group's certain leasehold improvements, furniture, fixtures and equipment, motor vehicles, computers and construction in progress of a hotel project, named "Hong Kong Ocean Park Marriott Hotel", with carrying amounts of approximately HK$50,000 (2016: Nil), HK$64,000 (2016: Nil), HK$251,000 (2016: Nil), HK$284,000 (2016: Nil) and HK$3,445,160,000 (2016: HK$2,390,355,000), respectively, were pledged to banks to secure banking facilities granted to the Group (note 27).

15. Prepaid Land Lease Payments

	2017 HK$'000	2016 HK$'000
Cost:		
At beginning and end of year	**35,960**	35,960
Accumulated amortisation:		
At beginning of year	**15,059**	14,032
Amortisation provided for the year (note 7(a))	**1,028**	1,027
At end of year	**16,087**	15,059
Net carrying amount:		
At beginning of year	**20,901**	21,928
At end of year	**19,873**	20,901

16. Investment Properties

	2017 HK$'000	2016 HK$'000
Carrying amount at beginning of year	**15,147,376**	15,236,780
Exchange realignment	**7,433**	(402,829)
Additions, at cost	**54,113**	261,886
Fair value gains, net	**1,238,092**	51,539
Carrying amount at end of year	**16,447,014**	15,147,376

Most of the investment properties of the Group are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

Certain investment properties of the Group with carrying amounts of approximately HK$16,204,924,000 (2016: HK$14,912,746,000) were pledged to banks to secure banking facilities granted to the Group (note 27).

Valuation process

The directors of the Company have determined that all investment properties are completed properties held for rental, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 July 2017 based on valuations performed by Savills Valuation and Professional Services Limited and Savills (UK) Limited, independent professionally qualified valuers, at HK$13,772,090,000 (2016: HK$12,684,630,000) and HK$2,674,924,000 (2016: HK$2,462,746,000), respectively. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuations are performed for interim and annual financial reporting.

16. Investment Properties (continued)

Valuation techniques

Fair value measurement using significant unobservable inputs (Level 3)

Fair value of investment properties is generally determined using the income capitalisation method and, wherever appropriate, by the direct comparison method. The income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from an analysis of sales transactions and valuers' interpretations of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation are determined with reference to recent lettings, within the subject properties and other comparable properties. The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently been transacted.

Information about fair value measurement using significant unobservable inputs (Level 3)

2017

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed properties held for rental	Income capitalisation method	Average monthly market rent per square foot	HK$13 to HK$346	The higher the market rent, the higher the fair value
		Capitalisation rate	3.0% to 5.2%	The higher the capitalisation rate, the lower the fair value

2016

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed properties held for rental	Income capitalisation method	Average monthly market rent per square foot	HK$13 to HK$350	The higher the market rent, the higher the fair value
		Capitalisation rate	3.4% to 5.4%	The higher the capitalisation rate, the lower the fair value

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

17. Properties under Development for Sale

	2017 HK$'000	2016 HK$'000
At beginning of year, at cost	**1,322,403**	653,845
Additions	**193,253**	625,625
Interest and bank financing charges capitalised (note 8)	**55,979**	42,933
At end of year, at cost	**1,571,635**	1,322,403

As at 31 July 2017, certain of the Group's properties under development for sale with a total carrying amount of approximately HK$809,955,000 (2016: HK$634,624,000) were pledged to banks to secure banking facilities granted to the Group (note 27).

18. Goodwill

	HK$'000
Cost and net carrying amount:	
At 1 August 2015	—
Acquisition of subsidiaries (note 42)	5,161
At 31 July 2016, 1 August 2016 and 31 July 2017	5,161

Impairment testing of goodwill

Goodwill acquired through a business combination during the year ended 31 July 2016 had been allocated to cash-generating units (the "**CGU**") from the Acquisition (as defined and disclosed in note 42), which are components of the restaurant operation segment, for impairment testing.

The acquired subsidiaries are a group of CGU which generate cash inflows that are largely independent of the cash inflows from other assets.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a three-year period (2016: three-year period) with a growth rate approved by senior management, which is based on management's expectation for market development. The discount rate applied to the cash flow projections is 13% (2016: 15%).

Assumptions were used in the value-in-use calculation of the CGU for the years ended 31 July 2017 and 31 July 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted profit — The basis used to determine the value assigned to the budgeted profit is the average profit achieved in the markets, adjusted for expected efficiency improvement, and expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

19. Interests in Associates/Interests in Joint Ventures

(a) Interests in associates

	2017 HK$'000	2016 HK$'000
Share of net assets	**3,385,577**	3,495,531
Amounts due from associates	**252,839**	340,550
Provision for impairment	**(82,540)**	(175,246)
	3,555,876	3,660,835
Market value of listed shares at the end of the reporting period	**540,019**	390,903

The amounts due from associates are unsecured, interest-free and are not expected to be repayable in the foreseeable future. In the opinion of the directors, these balances are considered as part of the Group's net investments in the associates.

During the year ended 31 July 2017, the Company invested in a parcel of land in Phuket, Thailand through the acquisition of an 38.64%-owned associate at a cost of approximately HK$159,555,000, which will be engaged in a resort hotel development and villas project.

During the year ended 31 July 2017, the provision for impairment decreased by approximately HK$92,706,000 mainly arising from striking off an associate. During the year ended 31 July 2016, the provision for impairment decreased by approximately HK$2,648,000 which represented exchange differences.

The provision for impairment in respect of the amounts due from associates at the end of the reporting period was determined on the basis of the amounts recoverable from the associates with reference to the fair value of the underlying assets held by the associates.

Details of the principal associates are set out in note 40 to the financial statements.

19. Interests in Associates/Interests in Joint Ventures (continued)

(a) Interests in associates (continued)

The eSun Group

The financial year end date of the eSun Group, which is considered as a principal associate of the Group, is coterminous with that of the Group.

The eSun Group is accounted for using the equity method in these financial statements.

(i) In June 2014, a wholly-owned subsidiary of eSun issued RMB650 million of 8.375% secured guaranteed notes which will mature in 2018. In relation to these notes, the Company entered into a keepwell and security shortfall support deed (the "**Keepwell Deed**") and a deed of equity interest purchase undertaking (the "**Undertaking Deed**") on 17 June 2014.

Pursuant to the Keepwell Deed and the Undertaking Deed, the Company shall, if the eSun Group defaults on the notes and the proceeds from disposal of the eSun Group's assets charged as security are insufficient to discharge the relevant amounts outstanding under the notes, use its best endeavours to as soon as reasonably practicable obtain all relevant approvals, including shareholders' approvals, to (i) provide sufficient funds to the eSun Group so as to satisfy the security shortfall amount, if any; (ii) invest or procure a subsidiary to invest in the eSun Group by way of an equity investment or advancement of shareholders' loan or a combination thereof; and (iii) purchase the equity interest held by the eSun Group as prescribed under the Undertaking Deed.

During the year, the eSun Group repurchased and cancelled a total of RMB581 million in principal amount of the notes. The eSun Group also redeemed and cancelled a total of RMB69 million in principal amount of the outstanding notes. The Keepwell Deed and the Undertaking Deed were cancelled accordingly.

(ii) On 9 February 2017, the Group's associate, eSun Holdings Limited ("**eSun**"), completed a share placement which resulted in a dilution in the Group's interest in eSun from 41.92% to 34.94%. The Group recorded a loss on deemed disposal of interest in eSun of approximately HK$573,121,000 in the consolidated income statement and released reserves of approximately HK$49,192,000 in the consolidated statement of comprehensive income from this transaction.

Subsequently, the Group acquired 2% additional interest in eSun from the public shareholders at a cost of approximately HK$25,426,000 and the Group's interest in eSun increased from 34.94% to 36.94%. A discount on acquisition of approximately HK$142,822,000 arose from this acquisition.

19. Interests in Associates/Interests in Joint Ventures (continued)

(a) Interests in associates (continued)

The eSun Group (continued)

The following summarised financial information is extracted from the published consolidated financial statements of the eSun Group. The consolidated financial statements of the eSun Group are prepared in accordance with HKFRSs and comply with the Group's accounting policies.

	31 July 2017 HK$'000	31 July 2016 HK$'000
Current assets	5,973,510	7,407,402
Non-current assets	23,269,238	20,994,349
Total assets	29,242,748	28,401,751
Current liabilities	(4,968,225)	(3,175,552)
Non-current liabilities	(7,051,653)	(8,961,415)
Total liabilities	(12,019,878)	(12,136,967)
Equity attributable to owners of eSun	9,118,200	8,599,258
Non-controlling interests	8,104,670	7,665,526
Total equity	17,222,870	16,264,784

	Year ended 31 July 2017 HK$'000	Year ended 31 July 2016 HK$'000
Turnover	2,677,388	3,369,275
Other revenue (including other operating gains and share of profits and losses of associates)	322,736	205,069
Fair value gains on cross currency swaps	111,657	—
Fair value gains on investment properties	832,118	522,043
Share of profits and losses of joint ventures	313,866	79,623
Expenses	(3,724,487)	(3,863,004)
Tax indemnity	493,936	—
Profit for the year	1,027,214	313,006
Other comprehensive expense for the year	(193,230)	(1,104,025)
Total comprehensive income/(expense) for the year	833,984	(791,019)
Profit for the year attributable to owners of eSun	514,233	80,825
Total comprehensive income/(expense) for the year attributable to owners of eSun	409,141	(502,306)

19. INTERESTS IN ASSOCIATES/INTERESTS IN JOINT VENTURES (CONTINUED)

(a) Interests in associates (continued)

The eSun Group (continued)

Reconciliation of the above summarised financial information of the eSun Group to the carrying amount of the interests in associates recognised in the consolidated financial statements is as follows:

	31 July 2017 HK$'000	31 July 2016 HK$'000
Net assets attributable to owners of eSun	**9,118,200**	8,599,258
The Group's 36.94% (2016: 41.92%) interest in the eSun Group	**3,368,263**	3,604,809
The Group's share of net assets/(liabilities) of the remaining associates not individually material	**17,314**	(107,873)
The Group's share of net assets of associates	**3,385,577**	3,496,936

	Year ended 31 July 2017 HK$'000	Year ended 31 July 2016 HK$'000
The Group's share of loss and total comprehensive expense of the remaining associates not individually material	**(13,290)**	(16,649)

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19. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures

	2017 HK$'000	2016 HK$'000
Share of net assets	**5,609,570**	4,728,150
Goodwill on acquisition	**71,000**	—
Amounts due from joint ventures	**1,543,613**	2,026,203
	7,224,183	6,754,353

The amounts due from joint ventures are unsecured, interest-free and are not expected to be repayable in the foreseeable future. In the opinion of the directors, these balances are considered as part of the Group's net investments in the joint ventures.

Certain shares in joint ventures held by the Group were pledged to banks to secure banking facilities granted to the joint ventures.

All the joint ventures are accounted for using the equity method in these financial statements. During the year, no dividend was declared by the joint ventures (2016: Nil).

Details of the principal joint ventures are set out in note 41 to the financial statements.

The summarised financial information below represents amounts shown in the financial statements of the respective joint ventures prepared in accordance with HKFRSs and complies with the Group's accounting policies.

19. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Best Value International Limited and its subsidiaries (the "Best Value Group")

The Best Value Group, a 50%-owned joint venture, principally held a property for rental in Hong Kong. The property, "8 Observatory Road", is located at 8 Observatory Road, Tsim Sha Tsui, Hong Kong.

	31 July 2017 HK$'000	31 July 2016 HK$'000
Current assets	**157,582**	81,882
Non-current assets	**3,500,000**	3,500,000
Total assets	**3,657,582**	3,581,882
Current liabilities	**(63,676)**	(59,218)
Non-current liabilities	**(1,294,505)**	(1,274,180)
Total liabilities	**(1,358,181)**	(1,333,398)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**141,256**	65,263
Non-current financial liabilities (excluding trade and other payables)	**(1,287,228)**	(1,274,180)

	Year ended 31 July 2017 HK$'000	Year ended 31 July 2016 HK$'000
Turnover	**109,918**	60,011
Profit and total comprehensive income for the year	**50,917**	537,086
The above profit and total comprehensive income for the year include the following:		
Interest expense	**(14,507)**	—

19. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Best Value International Limited and its subsidiaries (the "Best Value Group") (continued)

Reconciliation of the above summarised financial information of the Best Value Group to the carrying amount of the interest in the Best Value Group recognised in the consolidated financial statements is as follows:

	31 July 2017 HK$'000	31 July 2016 HK$'000
Net assets of the Best Value Group	**2,299,401**	2,248,484
The Group's 50% ownership interest in the Best Value Group	**1,149,701**	1,124,242
Amount due from the Best Value Group	**—**	637,090
Carrying amount of the Group's interest in the Best Value Group	**1,149,701**	1,761,332

Diamond Path Limited and its subsidiaries (the "Diamond Path Group")

The Diamond Path Group, a 50%-owned joint venture, was principally engaged in development of a residential/commercial project in Hong Kong. The project, "Alto Residences", is located at Area 68A2, Tseung Kwan O, Hong Kong.

	31 July 2017 HK$'000	31 July 2016 HK$'000
Current assets	**1,419,228**	67,495
Non-current assets	**4,904,369**	3,706,770
Total assets	**6,323,597**	3,774,265
Current liabilities	**(114,818)**	(7,827)
Non-current liabilities	**(6,276,469)**	(3,776,851)
Total liabilities	**(6,391,287)**	(3,784,678)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**42,700**	54,654
Non-current financial liabilities (excluding trade and other payables and provisions)	**(6,193,016)**	(3,760,576)
Interest expense (capitalised as non-current assets)	**50,949**	50,427

19. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Diamond Path Limited and its subsidiaries (the "Diamond Path Group") (continued)

	Year ended 31 July 2017 HK$'000	Year ended 31 July 2016 HK$'000
Turnover	**2,888**	—
Loss and total comprehensive expense for the year	**(57,277)**	(8,223)
The above loss and total comprehensive expense for the year include the following:		
Interest income	**3,490**	—

Reconciliation of the above summarised financial information of the Diamond Path Group to the carrying amount of the interest in the Diamond Path Group recognised in the consolidated financial statements is as follows:

	31 July 2017 HK$'000	31 July 2016 HK$'000
Net liabilities of the Diamond Path Group	**(67,690)**	(10,413)
The Group's 50% ownership interest in the Diamond Path Group	**(33,845)**	(5,206)
Amount due from the Diamond Path Group	**1,150,091**	995,591
Carrying amount of the Group's interest in the Diamond Path Group	**1,116,246**	990,385

19. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Diamond String Limited ("Diamond String")

Diamond String, a 50%-owned joint venture, principally held a property for rental in Hong Kong. The property, "CCB Tower", is located at 3 Connaught Road Central, Hong Kong.

	31 July 2017 HK$'000	31 July 2016 HK$'000
Current assets	**214,368**	197,885
Non-current assets	**10,314,221**	8,812,404
Total assets	**10,528,589**	9,010,289
Current liabilities	**(762,682)**	(221,314)
Non-current liabilities	**(879,457)**	(1,570,748)
Total liabilities	**(1,642,139)**	(1,792,062)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**193,312**	178,412
Non-current financial liabilities (excluding trade and other payables and provisions)	**(787,043)**	(1,484,318)

	Year ended 31 July 2017 HK$'000	Year ended 31 July 2016 HK$'000
Turnover	**244,799**	227,474
Profit and total comprehensive income for the year	**1,668,223**	1,012,105
The above profit and total comprehensive income for the year include the following:		
Interest income	**396**	227
Interest expense	**(23,518)**	(25,388)

19. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Diamond String Limited ("Diamond String") (continued)

Reconciliation of the above summarised financial information of Diamond String to the carrying amount of the interest in Diamond String recognised in the consolidated financial statements is as follows:

	31 July 2017 HK$'000	31 July 2016 HK$'000
Net assets of Diamond String	**8,886,450**	7,218,227
The Group's 50% ownership interest in Diamond String	**4,443,225**	3,609,114
Amount due from Diamond String	**393,522**	393,522
Carrying amount of the Group's interest in Diamond String	**4,836,747**	4,002,636

20. Available-For-Sale Financial Assets

	2017 HK$'000	2016 HK$'000
Unlisted equity investments, at fair value	**1,565,494**	1,361,016
Unlisted equity investments, at cost	**49,384**	46,218
Provision for impairment	**(25,208)**	(25,208)
	1,589,670	1,382,026

As at 31 July 2017, unlisted investments of the Group with a carrying amount of approximately HK$24,176,000 (2016: HK$13,252,000) were stated at cost less impairment because the directors are of the opinion that the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value.

As at 31 July 2017, included in available-for-sale financial assets at fair value was an equity interest in Bayshore Development Group Limited ("**Bayshore**") of approximately HK$1,394,371,000 (2016: HK$1,204,693,000). The principal activity of Bayshore is property investment.

20. Available-For-Sale Financial Assets (continued)

Valuation techniques

Fair value measurement using significant unobservable inputs (Level 3)

Fair value of the equity interest in Bayshore has been estimated using the fair value of the investment property held by Bayshore, which is determined by the direct comparison method and the income capitalisation method detailed below.

The properties are valued by the direct comparison method on the assumption that each property can be sold in its existing state subject to existing tenancies or otherwise with the benefit of vacant possession and by referring to comparable sales transactions as available in the relevant markets. Comparison is based on prices realised on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, characters and locations are analysed, and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

The properties are also valued by the income capitalisation approach taking into account the rents passing of the properties and the reversionary potential of the tenancies, and reconciling the two approaches, if applicable.

Information about fair value measurement using significant unobservable inputs (Level 3)

2017

Valuation technique	Unobservable inputs		Relationship of unobservable inputs to fair value
Income capitalisation method	Average monthly market rent per square foot	HK$141	The higher the market rent, the higher the fair value
	Capitalisation rate	3.0%	The higher the capitalisation rate, the lower the fair value

2016

Valuation technique	Unobservable inputs		Relationship of unobservable inputs to fair value
Income capitalisation method	Average monthly market rent per square foot	HK$122	The higher the market rent, the higher the fair value
	Capitalisation rate	3.0%	The higher the capitalisation rate, the lower the fair value

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

	2017 HK$'000	2016 HK$'000
Cash and bank balances	**1,146,359**	936,827
Time deposits	**1,801,022**	1,634,096
	2,947,381	2,570,923
Less: Non-current portion of pledged balances for bank borrowings:		
Bank balances	**(21,679)**	(116,100)
Time deposits	**(47,996)**	(100,141)
	(69,675)	(216,241)
Less: Current portion of pledged balances for bank borrowings:		
Bank balances	**(152,885)**	—
Time deposits	**(60,755)**	—
	(213,640)	—
Cash and cash equivalents	**2,664,066**	2,354,682

The conversion of Vietnamese Dong ("**VND**")/Renminbi ("**RMB**") denominated cash and bank balances and time deposits into foreign currencies and the remittance of such foreign currencies denominated balances out of Vietnam/the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the respective government authorities concerned. As at 31 July 2017, such VND and RMB denominated cash and bank balances and time deposits of the Group amounted to approximately HK$155,177,000 (2016: HK$261,276,000) and approximately HK$2,385,000 (2016: HK$1,073,000), respectively.

Cash at banks earns interest at floating rates based on bank deposit rates. Short term time deposits are spread over varying periods up to one month based on the estimated cash requirements of the Group, and earn interest at the respective short term time deposit rates. Bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

22. Deposits Paid and Other Receivables

	2017 HK$'000	2016 HK$'000
Rental and other deposits	**35,592**	19,025
Loan receivables:		
Variable-rate mortgage loan receivables	**48,818**	12,046
Fixed-rate other loan receivables	**114,501**	99,355
	163,319	111,401
Other receivables	**28,315**	30,560
Deposits paid:		
For purchase of items of property, plant and equipment	**2,538**	13,498
For additions to investment properties	**2,104**	6,578
	4,642	20,076
	231,868	181,062

23. Completed Properties for Sale

The completed properties for sale were carried at cost at the end of the reporting period.

24. Debtors, Deposits Paid and Other Receivables

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. The settlements of hotel and restaurant charges are mainly by cash and credit cards except for those corporate clients who maintain credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements.

24. Debtors, Deposits Paid and Other Receivables (continued)

An ageing analysis of the trade debtors, based on the payment due date, as at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Trade debtors:		
Not yet due or less than 30 days past due	**11,468**	15,653
31 - 60 days past due	**2,269**	2,102
61 - 90 days past due	**655**	853
Over 90 days past due	**4,611**	3,492
	19,003	22,100
Other receivables	**436,939**	78,776
Deposits paid and prepayments	**74,474**	76,132
	530,416	177,008

Debtors that were past due but not impaired mainly relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and rental deposits are received by the Group in advance from its customers, and accordingly, the balances are still considered fully recoverable. Other than rental deposits received, the Group does not hold any collateral or other credit enhancements over these balances.

25. Creditors, Deposits Received and Accruals

An ageing analysis of the trade creditors, based on the payment due date, as at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Trade creditors:		
Not yet due or less than 30 days past due	**18,966**	19,288
31 - 60 days past due	**865**	1,176
61 - 90 days past due	**120**	143
Over 90 days past due	**74**	1,148
	20,025	21,755
Other payables and accruals	**267,498**	285,696
Deposits received and other provisions	**164,482**	153,137
	452,005	460,588

The trade creditors are non-interest-bearing and normally with one month credit period.

26. Guaranteed Notes

On 18 January 2013, Lai Sun International Finance (2012) Limited, a wholly-owned subsidiary of the Company, issued guaranteed notes in an aggregate principal amount of US$350,000,000 (the "**Notes**"). The Notes are guaranteed by the Company, have a maturity term of five years and bear a fixed interest rate of 5.7% per annum with interest payable semi-annually in arrears.

The net proceeds from the offering of the Notes were approximately US$347,000,000 and were used for general corporate purposes.

	2017 HK$'000	2016 HK$'000
Guaranteed notes	**2,733,150**	2,715,300
Issue expenses	**(1,920)**	(6,073)
	2,731,230	2,709,227
Analysed into:		
Guaranteed notes repayable:		
Within one year	**2,731,230**	—
In the second year	**—**	2,709,227
	2,731,230	2,709,227
Fair value of the Notes	**2,759,600**	2,820,200

The fair value was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at 31 July 2017 and 31 July 2016.

27. Bank Borrowings

	Effective annual interest rate (%)	**2017 HK$'000**	2016 HK$'000
Current			
Bank borrowings — secured	2.0 - 2.7 (2016: 1.9 - 3.0)	**157,582**	126,709
Non-current			
Bank borrowings — secured	2.0 - 2.7 (2016: 1.9 - 3.0)	**6,748,399**	5,275,720
		6,905,981	5,402,429

27. Bank Borrowings (continued)

	2017 HK$'000	2016 HK$'000
Analysed into:		
Bank borrowings repayable:		
Within one year	**157,582**	126,709
In the second year	**1,233,451**	154,229
In the third to fifth years, inclusive	**5,514,948**	5,121,491
	6,905,981	5,402,429

Other than disclosed elsewhere in the financial statements, the Group's bank borrowings as at the end of the reporting period were secured, inter alia, by:

(i) fixed charges over certain items of property, plant and equipment, certain investment properties and certain properties under development for sale of the Group with carrying amounts of approximately HK$3,445,809,000 (2016: HK$2,390,355,000) (note 14), HK$16,204,924,000 (2016: HK$14,912,746,000) (note 16) and HK$809,955,000 (2016: HK$634,624,000) (note 17), respectively;

(ii) floating charges over all assets of certain subsidiaries of the Group with the aggregate carrying amounts of approximately HK$12,248,769,000 (2016: HK$10,233,147,000), of which the carrying amounts of the items of property, plant and equipment, investment properties and properties under development, of approximately HK$3,445,809,000 (2016: HK$2,390,355,000), HK$7,464,924,000 (2016: HK$6,832,746,000) and HK$809,955,000 (2016: HK$634,624,000), respectively are also included in note (i) above;

(iii) charges over certain bank balances and time deposits of the Group with an aggregate carrying amounts of approximately HK$283,315,000 (2016: HK$216,241,000) (note 21); and

(iv) charges over the shares of certain subsidiaries held by the Group (note 39).

28. Deferred Tax

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

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 August 2015	(122,091)	494	577	(121,020)
Deferred tax charged to the consolidated income statement during the year (note 11)	(6,573)	(226)	(134)	(6,933)
Acquisition of subsidiaries (note 42)	255	—	(193)	62
At 31 July 2016 and 1 August 2016	(128,409)	268	250	(127,891)
Deferred tax (charged)/credited to the consolidated income statement during the year (note 11)	(22,876)	9,068	94	(13,714)
Exchange realignment	314	—	—	314
At 31 July 2017	(150,971)	9,336	344	(141,291)

Apart from the tax losses for which deferred tax had been recognised above, the Group had estimated tax losses of approximately HK$1.5 billion (2016: HK$1.5 billion) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as future taxable profits may not be available to utilise such losses in the foreseeable future.

At 31 July 2017, there was no significant unrecognised deferred tax liability (2016: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

29. Share Capital

	2017		2016	
	Number of shares	**Total amount HK$'000**	Number of shares	Total amount HK$'000
Issued and fully paid ordinary shares	**30,251,304,984**	**4,063,736**	30,159,108,707	4,050,252

29. Share Capital (continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Total amount HK$'000
At 1 August 2015		20,094,533,563	3,135,561
Shares issued in lieu of cash dividend	a	17,308,363	2,008
Rights issue	b	10,047,266,781	912,683
At 31 July 2016 and 1 August 2016		30,159,108,707	4,050,252
Shares issued in lieu of cash dividend	c	66,196,277	9,651
Share options exercised	d	26,000,000	3,833
At 31 July 2017	e	30,251,304,984	4,063,736

Notes:

a. On 11 December 2015, the Company's shareholders approved at the annual general meeting a final dividend of HK$0.0025 per share payable in cash with a scrip dividend alternative (the "**2015 Scrip Dividend Scheme**") for the year ended 31 July 2015 (the "**2015 Final Dividend**"). During the year ended 31 July 2016, 17,308,363 new shares were issued by the Company at a deemed price of HK$0.116 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2015 Scrip Dividend Scheme to settle HK$2,008,000 of the 2015 Final Dividend. The remaining balance of the 2015 Final Dividend of HK$48,228,000 was satisfied by cash.

   Further details of the 2015 Scrip Dividend Scheme are set out in the Company's circular dated 30 December 2015.

b. Pursuant to the prospectus dated 18 January 2016, the Company proposed a rights issue of 10,047,266,781 shares on the basis of one rights share for every two existing shares of the Company at a subscription price of HK$0.092 per share. The rights issue was subsequently completed on 5 February 2016. The net proceeds from the rights issue of approximately HK$912,683,000, after deduction of rights issue expenses of approximately HK$11,665,000, were credited to share capital.

c. On 16 December 2016, the Company's shareholders approved at the annual general meeting a final dividend of HK$0.0019 per share payable in cash with a scrip dividend alternative (the "**2016 Scrip Dividend Scheme**") for the year ended 31 July 2016 (the "**2016 Final Dividend**"). During the year ended 31 July 2017, 66,196,277 new shares were issued by the Company at a deemed price of HK$0.1458 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2016 Scrip Dividend Scheme to settle HK$9,651,000 of the 2016 Final Dividend. The remaining balance of the 2016 Final Dividend of HK$47,689,000 was satisfied by cash.

   Further details of the 2016 Scrip Dividend Scheme are set out in the Company's circular dated 4 January 2017.

d. During the year ended 31 July 2017, 20,000,000 ordinary shares were issued in respect of a share option exercised under the Company's share option scheme at an exercise price of HK$0.107 per share and a total cash consideration of HK$2,140,000 was received. The share option reserve of approximately HK$898,000 was released to the share capital.

   During the year ended 31 July 2017, 6,000,000 ordinary shares were issued in respect of share options exercised under the Company's share option scheme at an exercise price of HK$0.094 per share and a total cash consideration of HK$564,000 was received. The share option reserve of approximately HK$230,000 was released to the share capital.

e. With effect from 15 August 2017, every fifty issued shares are consolidated into one share in the share capital of the Company as approved by the shareholders of the Company in the General Meeting (the "**Share Consolidation**"). Further details of the Share Consolidation are set out in the Company's announcements dated 27 April 2017 and 18 July 2017, and the Company's circular dated 26 July 2017.

29. Share Capital (continued)

2006 Capital Reduction

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

An undertaking in standard terms was given to the High Court by the Company in connection with the 2006 Capital Reduction. The undertaking is for the benefit of the Company's creditors as at the effective date of the 2006 Capital Reduction. Pursuant to the undertaking, any receipts by the Company on or after 1 August 2005 in respect of the Company's:

(1) 50% investment in Fortune Sign Venture Inc. ("**Fortune Sign**"), up to an aggregate amount of HK$1,556,000,000;

(2) 10% investment in Bayshore, up to an aggregate amount of HK$2,923,000,000; and/or

(3) 100% investment in Furama Hotel Enterprises Limited, up to an aggregate amount of HK$1,140,000,000

shall be credited to a special capital reserve in the accounting records of the Company. While any debt of or claim against the Company as at 18 October 2006 (the effective date of the 2006 Capital Reduction) remains outstanding, and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve pursuant to section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

The undertaking is subject to the following provisos:

(i) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration upon a capitalisation of distributable reserves after 18 October 2006 and the Company shall be at liberty to transfer the amount of any such reduction to the general reserve of the Company and the same shall become available for distribution;

(ii) the aggregate limit in respect of the special capital reserve may be reduced after the disposal or other realisation of any of the assets being the subject of the undertaking (as referred to at (1) to (3) above) by the amount of the individual limit for the asset in question less such amount (if any) as is credited to the special capital reserve as a result of such disposal or realisation; and

29. Share Capital (continued)

2006 Capital Reduction (continued)

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

In prior years, an aggregate amount of HK$630,400,000, which comprised (i) the reversal of provision for impairment of the Company's interest in Peakflow Profits Limited, a wholly-owned subsidiary, which holds a 10% equity interest in Bayshore, to the extent of HK$372,072,000; and (ii) the recognition of dividend income from the Company's investment in Fortune Sign of HK$258,328,000, was transferred from accumulated losses to the special capital reserve of the Company.

After the effective date of the 2006 Capital Reduction, the Company entered into a placing agreement dated 17 November 2006 pursuant to which a total of 1,416,000,000 new ordinary shares of HK$0.01 each in the capital of the Company were allotted and issued for net cash proceeds of HK$504,136,000. With such increase in the Company's issued share capital and share premium account resulting from the placing of new shares for cash, an aggregate amount of HK$504,136,000 was then transferred from special capital reserve to general reserve (a distributable reserve) of the Company in prior years pursuant to the provisos of the undertaking given by the Company in connection with the 2006 Capital Reduction as stated above.

As a result of the rights issue during the year ended 31 July 2012 with net cash proceeds of approximately HK$513,640,000, the Company's issued share capital and share premium account was further increased by an aggregate amount of approximately HK$513,640,000. The entire remaining balance of the special capital reserve of approximately HK$126,264,000 was further transferred to the general reserve (a distributable reserve) of the Company during the year ended 31 July 2012 pursuant to the provisos of the undertaking given by the Company in connection with the 2006 Capital Reduction as stated above.

During the year ended 31 July 2013, the Company recognised a dividend income from Fortune Sign of HK$16,300,000. Therefore, the Company transferred HK$16,300,000 (i) from retained profits to special capital reserve and (ii) from special capital reserve to general reserve, pursuant to the provisos of the undertaking given by the Company in connection with the 2006 Capital Reduction as stated above.

As a result of the above transfer between the reserves, the outstanding balance of the general reserve of the Company as at 31 July 2017 was approximately HK$646,700,000 (2016: HK$646,700,000). There was no remaining balance in the special capital reserve as at 31 July 2017 and 31 July 2016.

30. Share Option Schemes

2006 Share Option Scheme

On 22 December 2006, the Company adopted a share option scheme (the "**2006 Share Option Scheme**") for the purpose of providing incentives or rewards to eligible participants for their contribution or would be contribution to the Group, to enable the Group to recruit and retain high-calibre employees and to attract human resources that are valuable to the Group. Eligible participants of the 2006 Share Option Scheme include the directors (including executive, non-executive and independent non-executive directors), employees of the Group, agents or consultants of the Group, and employees of the shareholder or any member of the Group or any holder of any securities issued by any member of the Group. The 2006 Share Option Scheme became effective on 29 December 2006. Unless otherwise terminated or amended, the 2006 Share Option Scheme would remain in force for 10 years from 29 December 2006. The 2006 Share Option Scheme was terminated upon the adoption of the 2015 Share Option Scheme (as defined below) on 11 December 2015.

The maximum number of the Company's shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2006 Share Option Scheme and any other schemes of the Company must not exceed 30% of the Company's total number of shares in issue from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the 2006 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the total number of shares of the Company in issue as at the date of adopting the 2006 Share Option Scheme unless the Company seeks the approval of its shareholders in a general meeting to refresh the 10% limit under the 2006 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Company's total number of shares in issue. Any further grant of share options representing in aggregate over 1% of the total number of the Company's shares in issue must be separately approved by the shareholders in general meetings of the Company.

Each grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, shall be subject to approval by the independent non-executive directors of the Company. Any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue or having an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, in the 12-month period up to and including the date of such grant must be approved by shareholders in general meetings of the Company.

The offer of a grant of share options shall be accepted within 28 days from the date of offer and acceptance shall be made with a remittance in favour of the Company of HK$1 by way of consideration for the grant. The exercise period of the share options granted is determinable by the directors of the Company save that such period shall not be more than 10 years from the date of grant of the share options.

The exercise price of share options is determinable by the directors of the Company, but shall not be lower than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant.

Share options do not confer rights on the holders to dividends or to vote at general meetings of the Company.

30. Share Option Schemes (continued)

2015 Share Option Scheme

On 11 December 2015, the Company adopted a new share option scheme (the "**2015 Share Option Scheme**") and terminated the 2006 Share Option Scheme. Subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the previous scheme. The purpose of the 2015 Share Option Scheme is to recognise the contribution or future contribution of the eligible participants to the Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-calibre eligible participants in line with the performance goals of the relevant companies. Eligible participants include but are not limited to the directors and any employee of the Group. The 2015 Share Option Scheme became effective on 23 December 2015. Unless otherwise cancelled or amended, the 2015 Share Option Scheme will remain in force for 10 years from 23 December 2015.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the 2015 Share Option Scheme (i) shall not exceed 10% of the shares of the Company in issue at the date of adopting the 2015 Share Option Scheme; (ii) shall not exceed 30% of the shares of the Company in issue from time to time; and (iii) to each eligible participant and 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 the limits set out in (i) and (iii) is subject to the approval of shareholders of the Company and the shareholders of LSG (so long as the Company is a subsidiary of LSG under the Listing Rules) in the respective general meetings.

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 of each of the Company and LSG (so long as the Company is a subsidiary of LSG under the Listing Rules). 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 closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the approval of shareholders of the Company and the shareholders of LSG (so long as the Company is a subsidiary of LSG under the Listing Rules) in the respective general meetings.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such period shall not be longer than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, which shall be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (ii) the average closing price of the Company's shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant.

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

30. Share Option Schemes (continued)

Details of the movements of the Company's share options outstanding under the 2006 Share Option Scheme and the 2015 Share Option Scheme during the years are as follows:

	2017		2016	
	Number of underlying shares comprised in share options	**Weighted average exercise price per share* HK$**	Number of underlying shares comprised in share options	Weighted average exercise price per share* HK$
Outstanding at beginning of year	**754,376,857**	**0.256**	713,823,903	0.269
Granted during the year	**3,000,000**	**0.163**	15,000,000	0.094
Exercised during the year	**(26,000,000)**	**0.104**	—	—
Lapsed during the year	**(10,400,000)**	**0.322**	—	—
Cancelled during the year	**—**	**—**	(3,000,000)	0.094
Adjustment during the year (Note)	**—**	**—**	28,552,954	—
Outstanding at end of year	**720,976,857**	**0.260**	754,376,857	0.256

Note: On 17 February 2016, the exercise price of and the number of shares entitled to be subscribed for under the outstanding share options have been adjusted due to the rights issue of the Company.

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

The exercise price of the Company's share options granted on 20 January 2017 was HK$0.163 per share. The closing price of the Company's shares immediately before 20 January 2017 was HK$0.163 per share.

The exercise price of the Company's share options granted on 22 January 2016 was HK$0.094 per share. The closing price of the Company's shares immediately before 22 January 2016 was HK$0.091 per share.

The fair value of the share options granted during the year was approximately HK$188,000 (2016: HK$461,000), of which the Group recognised the entire amount as an expense during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of acceptance of the share options using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2017	2016
Dividend yield (%)	**1.1950**	1.7241
Expected volatility (%)	**53.3310**	51.1150
Historical volatility (%)	**53.3310**	51.1150
Risk-free interest rate (%)	**1.7089**	1.4675
Expected life of options (years)	**10**	10
Closing share price (HK$ per share)	**0.1730**	0.1060

30. Share Option Schemes (continued)

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The weighted average closing price of the Company's shares immediately before and at the dates of exercise of share options during the year was HK$0.176 and HK$0.178 per share, respectively.

Other than the movements of the share options as detailed above, no options were granted, exercised, cancelled or lapsed in accordance with the terms of the 2006 Share Option Scheme and the 2015 Share Option Scheme.

As at 31 July 2017, a total of 720,976,857 underlying shares (equivalent to 14,419,534 underlying shares after the Share Consolidation) comprised in share options were outstanding, of which 711,976,857 underlying shares (equivalent to 14,239,534 underlying shares after the Share Consolidation) relate to share options granted under the 2006 Share Option Scheme and 9,000,000 underlying shares (equivalent to 180,000 underlying shares after the Share Consolidation) relate to share options granted under the 2015 Share Option Scheme, represented approximately 2.35% and 0.03% of the Company's shares in issue, respectively, as at that date. As at the same date, the weighted average exercise price per outstanding underlying share comprised in share options was HK$0.260 (equivalent to HK$13 after the Share Consolidation).

Subsequent to the end of the reporting period, 60,000 underlying shares (after the Share Consolidation) comprised in a share option was exercised.

At the date of approval of these financial statements, a total of 14,359,534 underlying shares (after the Share Consolidation) comprised in share options were outstanding, of which 14,239,534 underlying shares (after the Share Consolidation) relate to share options granted under the 2006 Share Option Scheme and 120,000 underlying shares (after the Share Consolidation) relate to share options granted under the 2015 Share Option Scheme, represented approximately 2.35% and 0.02% of the Company's shares in issue, respectively, as at that date.

31. Partly-Owned Subsidiaries with Material Non-Controlling Interests

Summarised consolidated financial information of Porchester Assets Limited ("**Porchester**") and its subsidiaries that has material non-controlling interests before intergroup eliminations is set out below:

	31 July 2017 HK$'000	31 July 2016 HK$'000
Current assets	**323,208**	345,692
Non-current assets	**261,159**	260,491
Total assets	**584,367**	606,183
Current liabilities	**(54,923)**	(58,613)
Non-current liabilities	**(42,974)**	(32,790)
Total liabilities	**(97,897)**	(91,403)
Equity attributable to owners of Porchester	**260,682**	280,594
Non-controlling interests	**225,788**	234,186
Total equity	**486,470**	514,780

	Year ended 31 July 2017 HK$'000	Year ended 31 July 2016 HK$'000
Turnover	**407,257**	385,903
Cost of sales and operating expenses	**(333,835)**	(314,440)
Other revenue	**2,467**	1,513
Tax	**(15,979)**	(2,533)
Profit and total comprehensive income for the year	**59,910**	70,443
Profit and total comprehensive income attributable to the non-controlling interests of Porchester	**29,822**	34,591
Dividends paid to the non-controlling interests of Porchester	**38,220**	38,220

32. Capital Commitments

The Group had the following commitments not provided for in the financial statements at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for		
Purchase of items of property, plant and equipment	**6,691**	7,550
Development and operation of a hotel project	**1,187,063**	2,124,016
Additions to investment properties	**3,479**	43,739
	1,197,233	2,175,305

33. Contingent Liabilities

Save as disclosed elsewhere in the financial statements, the Group also had the following contingent liabilities at the end of the reporting period:

(a) Contingent liabilities not provided for in the financial statements:

	2017 HK$'000	2016 HK$'000
Guarantees given to banks in connection with facilities granted to and utilised by joint ventures	**1,092,000**	897,000

(b) Pursuant to an indemnity deed (the "**Lai Fung Tax Indemnity Deed**") dated 12 November 1997 entered into between the Company and Lai Fung Holdings Limited ("**Lai Fung**"), the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax ("**LAT**") payable or shared by Lai Fung in consequence of the disposal of certain property interests attributable to Lai Fung through its subsidiaries and its joint ventures as at 31 October 1997 (the "**Property Interests**"). These tax indemnities given by the Company apply in so far as such tax is applicable to the difference between (i) the value of the Property Interests in the valuation thereon by Chesterton Petty Limited (currently known as "Knight Frank Petty Limited"), independent professionally qualified valuers, as at 31 October 1997 (the "**Valuation**"); and (ii) the aggregate costs of such Property Interests incurred up to 31 October 1997, together with the amount of unpaid land costs, unpaid land premium and unpaid costs of resettlement, demolition and public utilities and other deductible costs in respect of the Property Interests. The Lai Fung Tax Indemnity Deed assumes that the Property Interests are disposed of at the values attributed to them in the Valuation, computed by reference to the rates and legislation governing PRC income tax and LAT prevailing at the time of the Valuation.

33. Contingent Liabilities (continued)

(b) (continued)

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on the Stock Exchange (the "**Listing**"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18 November 1997.

After taking into account the Property Interests currently held by Lai Fung as at 31 July 2017 which are covered under the Lai Fung Tax Indemnity Deed and the prevailing tax rates and legislation governing PRC income tax and LAT, the total amount of tax indemnity given by the Company is estimated to be approximately HK$0.8 billion (2016: HK$1.3 billion).

During the year, the Company settled tax indemnity of approximately HK$493,936,000 (2016: Nil) in relation to PRC income tax and LAT incurred and paid by Lai Fung. The Company also reversed an overprovision in prior years of approximately HK$142,451,000 (2016: Nil) which was credited to the consolidated income statement. As at the end of the reporting period, the Company recorded an aggregate provision for tax indemnity of approximately HK$93,000,000 (2016: HK$729,387,000).

34. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms mainly ranging from one to five years. Certain leases in the United Kingdom are negotiated for terms up to twenty-five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions. Certain leases include contingent rentals calculated with reference to the turnover of the tenants.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**499,221**	511,685
In the second to fifth years, inclusive	**581,542**	563,432
After five years	**95,282**	121,436
	1,176,045	1,196,553

34. Operating Lease Arrangements (continued)

(b) As lessee

The Group leases certain properties under operating lease arrangements. One of these leases has an original lease term of twelve years with an option to terminate the leases upon expiry of six years, nine years or twelve years. The remaining operating lease arrangements are with leases negotiated for terms ranging from one to six years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**82,864**	71,415
In the second to fifth years, inclusive	**224,881**	119,097
After five years	**70,555**	5,835
	378,300	196,347

35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2017 Loans and receivables HK$'000	2017 Available-for-sale financial assets HK$'000	2017 Total HK$'000	2016 Loans and receivables HK$'000	2016 Available-for-sale financial assets HK$'000	2016 Total HK$'000
Available-for-sale financial assets	**—**	**1,589,670**	**1,589,670**	—	1,382,026	1,382,026
Long term loan and other receivables (note 22)	**191,634**	**—**	**191,634**	141,961	—	141,961
Trade debtors and other receivables (note 24)	**455,942**	**—**	**455,942**	100,876	—	100,876
Pledged bank balances and time deposits	**283,315**	**—**	**283,315**	216,241	—	216,241
Cash and cash equivalents	**2,664,066**	**—**	**2,664,066**	2,354,682	—	2,354,682
	3,594,957	**1,589,670**	**5,184,627**	2,813,760	1,382,026	4,195,786

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35. Financial Instruments by Category (continued)

Financial liabilities

	2017 Financial liabilities at amortised cost HK$'000	2016 Financial liabilities at amortised cost HK$'000
Trade creditors, other payables and accruals	**287,523**	307,451
Bank borrowings	**6,905,981**	5,402,429
Guaranteed notes	**2,731,230**	2,709,227
	9,924,734	8,419,107

36. Fair Value Hierarchy of Financial Instruments

Financial instruments for which fair value is disclosed

Except for the guaranteed notes with a fair value in aggregate of approximately HK$2,759,600,000 (2016: HK$2,820,200,000) as detailed in note 26, the directors consider the carrying amounts of all other financial assets and financial liabilities measured at amortised cost approximated to their fair values as at the end of the reporting period.

Financial instruments measured at fair value

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 July 2017				
Available-for-sale financial assets, at fair value (note 20)	**—**	**171,123**	**1,394,371**	**1,565,494**
As at 31 July 2016				
Available-for-sale financial assets, at fair value (note 20)	—	156,323	1,204,693	1,361,016

36. Fair Value Hierarchy of Financial Instruments (continued)

Financial instruments measured at fair value (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2017 HK$'000	2016 HK$'000
Available-for-sale financial assets, at fair value		
At beginning of year	**1,204,693**	1,051,018
Total gains recognised in other comprehensive income	**189,678**	153,675
At end of year	**1,394,371**	1,204,693

37. Financial Risk Management Objectives and Policies

The principal financial assets held by the Group comprise available-for-sale financial assets, pledged bank balances and time deposits, and cash and cash equivalents. Management would, based on the Group's projected cash flow requirements, determine the types and levels of these financial instruments with a view to maintaining an appropriate level of funding for the Group's operations and to enhancing the returns generated from these financial instruments. The Group's principal financial liabilities comprise bank borrowings and guaranteed notes. The Group will procure various types and levels of such financial liabilities in order to maintain sufficient funding for the Group's daily operations and to cope with expenditures incurred for various properties under development for sale or investment projects. In addition, the Group has various other financial assets and liabilities such as long term loan receivables, debtors and creditors which arise directly from its daily operations.

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

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument fluctuates because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's pledged bank balances and time deposits, cash and cash equivalents and bank borrowings with a floating interest rate.

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(i) Fair value and cash flow interest rate risks (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant and before any impact on tax, of the Group's profit or loss (through the impact on variable-rate mortgage loan receivables, pledged bank balances and time deposits, cash and cash equivalents and bank borrowings) and the Group's equity.

	Increase in interest rate (in percentage)	**Decrease in profit and equity** HK$'000
2017	**0.5**	**19,547**
2016	0.5	14,095

(ii) Foreign currency risk

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

The Group's major assets and liabilities and transactions are principally denominated in HK$ or US$. As HK$ is pegged against US$, the Group does not expect any significant movements in the exchange rate in the foreseeable future.

The Group had made investments in the United Kingdom with the assets and liabilities denominated in Pounds Sterling. The investments were partly financed by bank borrowings denominated in Pounds Sterling in order to minimise the net foreign exchange exposure. Other than the abovementioned, the remaining monetary assets and liabilities of the Group were denominated in RMB and VND which were insignificant as compared with the Group's total assets and liabilities. No hedging instruments were employed to hedge the foreign exchange exposure.

(iii) Credit risk

The Group maintains various credit policies for different business operations as described in note 24. In addition, trade debtor balances are closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the financial assets, which comprise trade debtors and other receivables, pledged bank balances and time deposits, cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

37. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk

The Group's objective is to ensure adequate funds are available to meet commitments associated with its capital expenditure and financial liabilities. Cash flows are closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017			
	Less than 3 months or on demand HK$'000	**3 to 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Trade creditors, other payables and accruals	**287,523**	**—**	**—**	**287,523**
Bank borrowings	**75,099**	**231,608**	**6,998,930**	**7,305,637**
Guaranteed notes	**—**	**2,805,419**	**—**	**2,805,419**
Bank guarantee to joint ventures (note 33(a))	**1,092,000**	**—**	**—**	**1,092,000**
	1,454,622	**3,037,027**	**6,998,930**	**11,490,579**

	2016			
	Less than 3 months or on demand HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade creditors, other payables and accruals	307,451	—	—	307,451
Bank borrowings	62,737	187,238	5,639,427	5,889,402
Guaranteed notes	—	149,183	2,792,686	2,941,869
Bank guarantee to a joint venture (note 33(a))	897,000	—	—	897,000
	1,267,188	336,421	8,432,113	10,035,722

37. Financial Risk Management Objectives and Policies (continued)

(v) Capital management

The Group manages its capital structure to ensure that entities in the Group will be able to continue to operate as a going concern while maximising the return to stakeholders through the setting up and maintenance of an optimal debt and equity capital structure. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group mainly consists of bank borrowings, guaranteed notes and equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure regularly. They will take into consideration the cost of capital and the risks associated with each class of capital prevailing in the market. Based on the recommendation of the directors, the Group will balance its overall capital structure through various types of equity fund raising exercises as well as maintenance of appropriate types and level of debt.

The Group monitors capital using, inter-alia, a gearing ratio which is net debt divided by equity attributable to owners of the Company. Net debt includes bank borrowings and guaranteed notes, less pledged bank balances and time deposits, and cash and cash equivalents. The gearing ratio as at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
Bank borrowings	**6,905,981**	5,402,429
Guaranteed notes	**2,731,230**	2,709,227
Less: Pledged bank balances and time deposits	**(283,315)**	(216,241)
Cash and cash equivalents	**(2,664,066)**	(2,354,682)
Net debt	**6,689,830**	5,540,733
Equity attributable to owners of the Company	**26,599,790**	24,357,735
Gearing ratio	**25%**	23%

38. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**7,760**	8,796
Investment properties	**8,771,400**	8,108,500
Interests in subsidiaries	**6,205,963**	6,295,840
Interests in associates	**6,183**	6,134
Interests in joint ventures	**393,522**	393,522
Available-for-sale financial assets	**58,775**	55,200
Pledged bank balances and time deposits	**47,996**	148,525
Deposits paid and other receivables	**2,227**	6,888
Total non-current assets	**15,493,826**	15,023,405
CURRENT ASSETS		
Debtors, deposits paid and other receivables	**52,598**	40,026
Pledged bank balances and time deposits	**132,584**	—
Cash and cash equivalents	**1,806,286**	1,236,833
Total current assets	**1,991,468**	1,276,859
CURRENT LIABILITIES		
Creditors, deposits received and accruals	**92,382**	74,232
Tax payable	**88,791**	95,286
Bank borrowings	**126,080**	98,580
Total current liabilities	**307,253**	268,098
NET CURRENT ASSETS	**1,684,215**	1,008,761
TOTAL ASSETS LESS CURRENT LIABILITIES	**17,178,041**	16,032,166

38. Statement of Financial Position of the Company (continued)

	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES		
Bank borrowings	**3,035,643**	2,161,743
Deferred tax	**67,143**	62,700
Provision for tax indemnity	**93,000**	729,387
Long term rental deposits received	**48,032**	52,397
Total non-current liabilities	**3,243,818**	3,006,227
	13,934,223	13,025,939
EQUITY		
Share capital	**4,063,736**	4,050,252
Reserves (Note)	**9,870,487**	8,975,687
	13,934,223	13,025,939

Chew Fook Aun
Director

Lau Shu Yan, Julius
Director

38. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Investment revaluation reserve HK$'000	Share option reserve HK$'000	Capital reduction reserve HK$'000	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 August 2015	18,972	59,354	4,692	646,700	7,949,235	8,678,953
Profit for the year	—	—	—	—	360,201	360,201
Other comprehensive expense for the year:						
Change in fair values of available-for-sale financial assets	(13,692)	—	—	—	—	(13,692)
Total comprehensive (expense)/income for the year	(13,692)	—	—	—	360,201	346,509
Final 2015 dividend declared	—	—	—	—	(50,236)	(50,236)
Recognition of share-based payments	—	461	—	—	—	461
At 31 July 2016 and 1 August 2016	5,280	59,815	4,692	646,700	8,259,200	8,975,687
Profit for the year	—	—	—	—	949,546	949,546
Other comprehensive income for the year:						
Change in fair values of available-for-sale financial assets	3,574	—	—	—	—	3,574
Total comprehensive income for the year	3,574	—	—	—	949,546	953,120
Final 2016 dividend declared (note 12)	—	—	—	—	(57,340)	(57,340)
Recognition of share-based payments	—	188	—	—	—	188
Share options exercised	—	(1,128)	—	—	—	(1,128)
At 31 July 2017	8,854	58,875	4,692	646,700	9,151,406	9,870,527

39. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 July 2017 were as follows:

Name	Place of Incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bushell Limited	Hong Kong	HK$2	Ordinary	—	100.00	Property development and sales
Cape Nga Holding Company Limited****	Thailand	THB1,225,000	Ordinary	—	49.00	Investment holding
Capital Court Limited	Hong Kong	HK$1	Ordinary	—	100.00	Hotel development and operation
Chains Caravelle Hotel Joint Venture Company Limited ("**CCHJV**")	Vietnam	US$23,175,577	*	—	26.01 **	Hotel operation
Ever Dragon Properties Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Frontier Dragon Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Furama Hotel Enterprises Limited	Hong Kong	HK$102,880,454	Ordinary	—	100.00	Investment holding
Furama Hotels and Resorts International Limited	British Virgin Islands/ Hong Kong	US$1,000,000	Ordinary	—	100.00	Provision of management services
Fusion Century Limited	Hong Kong	HK$100	Ordinary	—	50.28	Restaurant operation
Gilroy Company Limited	Hong Kong	HK$10,000	Ordinary	100.00	—	Property investment
Glynhill Hotels and Resorts (Vietnam) Pte Ltd	Singapore/ Vietnam	S$2	Ordinary	—	100.00	Provision of management and consultancy services to hotel owners

39. Particulars of Principal Subsidiaries (continued)

Name	Place of Incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Glynhill Investments (Vietnam) Pte Ltd ("**GIV**")	Singapore	S$2	Ordinary	—	51.00 **	Investment holding
Goldmay Development Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property development and sales
Greatful Limited***	Hong Kong	HK$100	Ordinary	—	67.04	Central kitchen and restaurant operation
Intercontinental Development and Services Limited	Hong Kong	HK$300,000	Ordinary	—	100.00	Property investment
King Faithful Limited***	Hong Kong	HK$100	Ordinary	—	61.68	Restaurant operation
Kingright International Limited****	Hong Kong	HK$1	Ordinary	—	100.00	Golf apparel retailing
Kolot Property Services Limited	Hong Kong	HK$780,002	Ordinary	100.00	—	Property management
Lai Sun F&B Holding Company Limited ("**LSF&B**") ***	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	67.04	Investment holding
Lai Sun Dining Limited (formerly known as Lai Sun F&B Management Limited)	Hong Kong	HK$1	Ordinary	—	67.04	Provision of management and consultancy services to restaurants
Lai Sun International Finance (2012) Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Treasury operation
Lai Sun Real Estate Agency Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property management and real estate agency

39. Particulars of Principal Subsidiaries (continued)

Name	Place of Incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Mazy Charm Limited***	Hong Kong	HK$4,200	Ordinary	—	61.68	Restaurant operation
Mazy Lamp Limited***	Hong Kong	HK$3,300	Ordinary	—	49.61	Restaurant operation
Megabull Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Milirich Investment Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property development
Modern Charm Limited***	Hong Kong	HK$10,000	Ordinary	—	67.04	Restaurant operation
Oriental Style Limited	Hong Kong	HK$1	Ordinary	—	100.00	Property development and sales
Peakflow Profits Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Porchester	British Virgin Islands/ Hong Kong	US$100	Ordinary	—	51.00 **	Investment holding
Prompt Result Limited	British Virgin Islands/ Hong Kong	US$100	Ordinary	—	57.65	Restaurant operation
Really Star Limited***	Hong Kong	HK$3,100	Ordinary	—	62.71	Restaurant operation
Rife World Limited	Hong Kong	HK$1	Ordinary	—	100.00	Provision of finance
Rolling Star Limited	Hong Kong	HK$1	Ordinary	—	100.00	Provision of finance
Royal Team Limited***	Hong Kong	HK$10,000	Ordinary	—	59.00	Restaurant operation

39. Particulars of Principal Subsidiaries (continued)

Name	Place of Incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Silver Fusion Limited	Hong Kong	HK$500,000	Ordinary	—	67.04	Restaurant operation
Skyway Century Limited	Hong Kong	HK$1,000,000	Ordinary	—	67.04	Restaurant operation
Speedy Result Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Top Winsome Limited***	Hong Kong	HK$300,000	Ordinary	—	59.67	Restaurant operation
Transformation International Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Transtrend Holdings Limited	Hong Kong	HK$20	Ordinary	—	100.00	Investment holding
Winstead Limited	Hong Kong	HK$1	Ordinary	—	100.00	Property development
World Palace Limited	Hong Kong	HK$1,300	Ordinary	—	57.25	Restaurant operation

* This subsidiary has registered capital rather than issued share capital.

** The Group owns a 51% (2016: 51%) equity interest in Porchester, which in turn, through GIV, a wholly-owned subsidiary of Porchester, owns a 51% (2016: 51%) interest in CCHJV. By virtue of the 51% (2016: 51%) equity interest in CCHJV held by the Group through the 51%-owned Porchester, an effective equity interest of 26.01% (2016: 26.01%) in CCHJV was held by the Group.

39. Particulars of Principal Subsidiaries (continued)

*** On 30 June 2016, the Group acquired additional equity interests in the following subsidiaries (the "**Acquisition of Additional Interests**"):

Subsidiaries	Equity interest attributable to LSF&B prior to the Acquisition of Additional Interests	Acquired interests	Equity interest attributable to LSF&B upon the Acquisition of Additional Interests
Greatful Limited	55.00%	45.00%	100.00%
King Faithful Limited	62.00%	30.00%	92.00%
Mazy Charm Limited	51.00%	41.00%	92.00%
Mazy Lamp Limited	53.00%	21.00%	74.00%
Modern Charm Limited	70.00%	30.00%	100.00%
Really Star Limited	56.77%	36.77%	93.54%
Royal Team Limited	52.00%	36.00%	88.00%
Top Winsome Limited	54.00%	30.00%	84.00%

The consideration was satisfied by the allotment and issuance of 75,242,791 new shares at HK$1 each of LSF&B, at a fair value of approximately HK$68,471,000 (being 75,242,791 shares valued at HK$0.91 each).

Pursuant to the above allotment and issuance of new shares of LSF&B and those set out in note 42, LSF&B became a 66.71%-owned subsidiary of the Company. On the same day, LSF&B completed a rights issue of 140,000,000 shares for HK$1 each with total proceeds of HK$140 million (the "**LSF&B Rights Issue**"). Following the completion of the LSF&B Rights Issue, the Company's interest in LSF&B was increased from 66.71% to 67.04%.

**** These subsidiaries were newly incorporated/acquired during the year.

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.

Shares of certain subsidiaries held by the Group were also pledged to banks to secure banking facilities granted to the Group (note 27).

40. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates as at 31 July 2017 were as follows:

Name	Place of incorporation or registration and business	Class of shares held	Percentage of ownership interest attributable to the Group	Notes
eSun	Bermuda/ Hong Kong	Ordinary	36.94	a
Lai Fung	Cayman Islands/ PRC	Ordinary	18.77	b
Media Asia Group Holdings Limited ("**Media Asia**")	Incorporated in the Cayman Islands and continued in Bermuda/ Hong Kong	Ordinary	24.96	c

Notes:

a. eSun is listed on the Main Board of the Stock Exchange.

eSun and its subsidiaries are principally engaged in property development for sale and property investment for rental purposes; development and operation of and investment in cultural, leisure, entertainment and related facilities; development and operation of and investment in media, entertainment, music production and distribution; investment in and production and distribution of television programmes, films and video format products; cinema operation; sale of cosmetic products; and investment holding.

b. Lai Fung is listed on the Main Board of the Stock Exchange. As at 31 July 2017, eSun owns a 50.81% (2016: 51.08%) interest in Lai Fung.

Lai Fung and its subsidiaries are principally engaged in property development for sale, property investment for rental purposes, and development and operation of and investment in cultural, leisure, entertainment and related facilities.

c. Media Asia is listed on the Growth Enterprise Market of the Stock Exchange. As at 31 July 2017, eSun owns a 67.56% (2016: 66.25%) interest in Media Asia.

Media Asia and its subsidiaries are principally engaged in film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

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

41. PARTICULARS OF PRINCIPAL JOINT VENTURES

Particulars of the Group's principal joint ventures as at 31 July 2017 were as follows:

Name	Place of incorporation or registration and business	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Best Value Group	Hong Kong	Ordinary	50.00	Property development
Diamond Path Group	British Virgin Islands/ Hong Kong	Ordinary	50.00	Property development
Diamond String Limited	Hong Kong	Ordinary	50.00	Property investment

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

42. Acquisition of Subsidiaries

On 30 June 2016, the Group acquired additional equity interests in three associates (the "**Acquisition**"), namely Fusion Century Limited, Prompt Result Limited and World Palace Limited (collectively the "**Acquired Subsidiaries**") as follows:

Entities	Equity interest attributable to LSF&B prior to the Acquisition	Interest acquired	Equity interest attributable to LSF&B upon the Acquisition	Principal activities
Fusion Century Limited	45.00%	30.00%	75.00%	Restaurant operation
Prompt Result Limited	30.00%	56.00%	86.00%	Restaurant operation
World Palace Limited	30.00%	55.39%	85.39%	Restaurant operation

The consideration was satisfied by the allotment and issuance of 22,834,205 new shares of a subsidiary, LSF&B, at a fair value of approximately HK$20,779,000 (being 22,834,205 shares valued at HK$0.91 each).

Goodwill of approximately HK$5,161,000 and gain on bargain purchase of HK$3,128,000 were recognised upon the completion of the Acquisition. The Group considers that the Acquired Subsidiaries would add immediate scale to its food and beverage operation in Hong Kong. None of the goodwill recognised is expected to be deductible for income tax purposes.

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The fair values of identifiable assets and liabilities of the Acquired Subsidiaries as at the date of acquisition were as follows:

	Notes	HK$'000
Property, plant and equipment (note 14)		25,046
Interest in an associate		181
Deferred tax (note 28)		62
Inventories		9,971
Debtors, deposits paid and other receivables		10,069
Cash and cash equivalents		33,248
Creditors, deposits received and accruals		(10,348)
Tax payable		(561)
Non-controlling interests of the Acquired Subsidiaries	(i)	(3,630)
		64,038
Non-controlling interests	(i), (ii)	(14,133)
Total identifiable net assets at fair value		49,905
Goodwill on acquisition (note 18)	(iii)	5,161
Gain on bargain purchase recognised on the consolidated income statement (note 6)		(3,128)
		51,938
Satisfied by:		
LSF&B consideration shares		20,779
Fair value of equity interests of the Acquired Subsidiaries prior to the Acquisition		31,159
		51,938

Notes:

(i) The non-controlling interests acquired and arising from the Acquisition amounted to HK$17,763,000.

(ii) The non-controlling interests in the Acquired Subsidiaries recognised at the date of the acquisition were measured by reference to the respective proportionate shares of recognised amounts of net assets of the relevant Acquired Subsidiaries and amounted to HK$14,133,000.

(iii) The goodwill arising on the Acquisition is measured as the excess of the sum of the consideration transferred and the amount of non-controlling interests, over the net amounts of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

42. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The cash and cash equivalents acquired amounted to approximately HK$33,248,000.

The Group incurred transaction costs of approximately HK$140,000 for the Acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

Since the Acquisition, the Acquired Subsidiaries contributed approximately HK$9,279,000 to the Group's revenue and loss of approximately HK$179,000 to the Group's consolidated profit for the year ended 31 July 2016.

Had the Acquisition taken place at the beginning of the year ended 31 July 2016, the revenue and the profit for the year ended 31 July 2016 of the Group would have been approximately HK$1,980,707,000 and approximately HK$1,182,047,000, respectively.

43. EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the financial statements, on 13 September 2017, LSD Bonds (2017) Limited, a wholly-owned subsidiary of the Company, issued guaranteed notes in an aggregate principal amount of US$400 million (the "**2017 Notes**"). The 2017 Notes are guaranteed by the Company, have a maturity term of five years and bear a fixed interest rate of 4.6% per annum with interest payable semi-annually in arrears.

The net proceeds from the offering of the 2017 Notes were approximately US$396 million and will be used for refinancing the existing guaranteed notes of US$350 million and general corporate purposes.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 October 2017.

Independent Auditors' Report

To the members of Lai Sun Development Company Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Lai Sun Development Company Limited (the "**Company**") and its subsidiaries set out on pages 71 to 163, which comprise the consolidated statement of financial position as at 31 July 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 July 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 October 2016

Consolidated Income Statement

Year ended 31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
TURNOVER	6	**1,868,334**	1,541,686
Cost of sales		**(861,722)**	(646,115)
Gross profit		**1,006,612**	895,571
Other revenue	6	**68,235**	128,826
Selling and marketing expenses		**(28,520)**	(23,534)
Administrative expenses		**(249,995)**	(240,557)
Other operating expenses	7(b)	**(219,826)**	(186,026)
Fair value gains on investment properties, net	16	**51,539**	1,289,257
PROFIT FROM OPERATING ACTIVITIES	7(a)	**628,045**	1,863,537
Finance costs	8	**(178,290)**	(180,016)
Share of profits and losses of associates		**17,233**	90,127
Share of profits of joint ventures		**770,469**	354,243
PROFIT BEFORE TAX		**1,237,457**	2,127,891
Tax	11	**(57,691)**	(79,397)
PROFIT FOR THE YEAR		**1,179,766**	2,048,494
Attributable to:			
Owners of the Company		**1,148,390**	2,018,262
Non-controlling interests		**31,376**	30,232
		1,179,766	2,048,494
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		(Adjusted)
Basic		**HK$0.045**	HK$0.098
Diluted		**HK$0.045**	HK$0.097

Consolidated Statement of Comprehensive Income

Year ended 31 July 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**1,179,766**	2,048,494
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale financial assets:		
Changes in fair values	**131,108**	(31,818)
Reclassification adjustment for impairment loss included in the consolidated income statement	**—**	6,141
	131,108	(25,677)
Exchange realignments	**(174,440)**	(52,306)
Share of other comprehensive expense of associates	**(244,302)**	(25,242)
Release of reserves upon disposal of associates	**(31)**	—
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR	**(287,665)**	(103,225)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**892,101**	1,945,269
Attributable to:		
Owners of the Company	**860,672**	1,915,037
Non-controlling interests	**31,429**	30,232
	892,101	1,945,269

Consolidated Statement of Financial Position

31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,983,985**	2,380,267
Prepaid land lease payments	15	**20,901**	21,928
Investment properties	16	**15,147,376**	15,236,780
Properties under development for sale	17	**1,322,403**	653,845
Goodwill	43	**5,161**	—
Interests in associates	18(a)	**3,660,835**	3,930,309
Interests in joint ventures	18(b)	**6,754,353**	5,937,793
Available-for-sale financial assets	19	**1,382,026**	1,215,485
Pledged bank balances and time deposits	20	**216,241**	—
Deposits paid and other receivables	21	**181,062**	141,968
Total non-current assets		**31,674,343**	29,518,375
CURRENT ASSETS			
Completed properties for sale	22	**321,509**	641,048
Equity investments at fair value through profit or loss	23	**—**	5,574
Inventories		**25,899**	12,704
Debtors, deposits paid and other receivables	24	**177,008**	175,672
Pledged bank balances and time deposits	20	**—**	185,467
Cash and cash equivalents	20	**2,354,682**	1,068,038
Total current assets		**2,879,098**	2,088,503
CURRENT LIABILITIES			
Creditors, deposits received and accruals	25	**460,588**	409,301
Tax payable		**132,282**	170,783
Bank borrowings	26	**126,709**	1,012,594
Total current liabilities		**719,579**	1,592,678
NET CURRENT ASSETS		**2,159,519**	495,825
TOTAL ASSETS LESS CURRENT LIABILITIES		**33,833,862**	30,014,200

Consolidated Statement of Financial Position

31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Bank borrowings	26	**5,275,720**	3,270,608
Guaranteed notes	27	**2,709,227**	2,703,324
Deferred tax	28	**127,891**	121,020
Provision for tax indemnity	33(b)	**729,387**	729,387
Long term rental deposits received		**90,063**	81,907
Deferred rental		**9,724**	4,380
Total non-current liabilities		**8,942,012**	6,910,626
		24,891,850	23,103,574
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	**4,050,252**	3,135,561
Investment revaluation reserve		**1,241,566**	1,117,849
Share option reserve		**65,633**	65,172
Hedging reserve		**9,114**	(963)
Capital reduction reserve	29	**4,692**	4,692
General reserve	29	**646,700**	646,700
Other reserve		**233,252**	263,684
Statutory reserve		**28,996**	24,518
Exchange fluctuation reserve		**(399,139)**	22,373
Retained profits		**18,476,669**	17,382,957
		24,357,735	22,662,543
Non-controlling interests		**534,115**	441,031
		24,891,850	23,103,574

Chew Fook Aun
Director

Lau Shu Yan, Julius
Director

Consolidated Statement of Changes in Equity

Year ended 31 July 2016

	Attributable to owners of the Company												
	Share capital HK$'000	Investment revaluation reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Capital reduction reserve HK$'000	General reserve HK$'000	Other reserve HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 August 2014	3,129,961	1,131,735	64,469	(963)	4,692	646,700	256,582	—	111,712	15,429,660	20,774,548	449,947	21,224,495
Profit for the year	—	—	—	—	—	—	—	—	—	2,018,262	2,018,262	30,232	2,048,494
Other comprehensive income/(expense) for the year:													
Change in fair values of available-for-sale financial assets	—	(25,677)	—	—	—	—	—	—	—	—	(25,677)	—	(25,677)
Exchange realignments	—	—	—	—	—	—	—	—	(52,306)	—	(52,306)	—	(52,306)
Share of other comprehensive income/(expense) of associates	—	11,791	—	—	—	—	—	—	(37,033)	—	(25,242)	—	(25,242)
Total comprehensive (expense)/income for the year	—	(13,886)	—	—	—	—	—	—	(89,339)	2,018,262	1,915,037	30,232	1,945,269
Final 2014 dividend declared	—	—	—	—	—	—	—	—	—	(50,157)	(50,157)	—	(50,157)
Share of reserve movements of an associate	—	—	175	—	—	—	7,102	24,518	—	(14,808)	16,987	—	16,987
Recognition of share-based payments	—	—	528	—	—	—	—	—	—	—	528	—	528
Capital contribution from non-controlling shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	26,820	26,820
Shares issued in lieu of cash dividend (note 29(a))	5,600	—	—	—	—	—	—	—	—	—	5,600	—	5,600
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(65,968)	(65,968)
At 31 July 2015 and 1 August 2015	3,135,561	1,117,849	65,172	(963)	4,692	646,700	263,684	24,518	22,373	17,382,957	22,662,543	441,031	23,103,574
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,148,390**	**1,148,390**	**31,376**	**1,179,766**
Other comprehensive income/(expense) for the year:													
Change in fair values of available-for-sale financial assets	**—**	**131,108**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**131,108**	**—**	**131,108**
Exchange realignments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(174,440)**	**—**	**(174,440)**	**—**	**(174,440)**
Share of other comprehensive (expense)/income of associates	**—**	**(7,391)**	**—**	**10,077**	**—**	**—**	**—**	**—**	**(247,041)**	**—**	**(244,355)**	**53**	**(244,302)**
Release of reserves upon disposal of associates	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(31)**	**—**	**(31)**	**—**	**(31)**
Total comprehensive income/(expense) for the year	**—**	**123,717**	**—**	**10,077**	**—**	**—**	**—**	**—**	**(421,512)**	**1,148,390**	**860,672**	**31,429**	**892,101**
Final 2015 dividend declared (note 12)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(50,236)**	**(50,236)**	**—**	**(50,236)**
Share of reserve movements of an associate	**—**	**—**	**—**	**—**	**—**	**—**	**(26,495)**	**4,478**	**—**	**(4,442)**	**(26,459)**	**—**	**(26,459)**
Recognition of share-based payments	**—**	**—**	**461**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**461**	**—**	**461**
Capital contribution from non-controlling shareholders of subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**35,060**	**35,060**
Shares issued in lieu of cash dividend (note 29(b))	**2,008**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,008**	**—**	**2,008**
Net proceeds from rights issue (note 29(c))	**912,683**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**912,683**	**—**	**912,683**
Dividends paid to non-controlling shareholders of subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(61,005)**	**(61,005)**
Acquisition of subsidiaries (note 42)	**—**	**—**	**—**	**—**	**—**	**—**	**(2,056)**	**—**	**—**	**—**	**(2,056)**	**17,763**	**15,707**
Acquisition of non-controlling interests (note 39)	**—**	**—**	**—**	**—**	**—**	**—**	**(13,398)**	**—**	**—**	**—**	**(13,398)**	**(61,845)**	**(75,243)**
Disposal of partial interest in a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**11,517**	**—**	**—**	**—**	**11,517**	**131,682**	**143,199**
At 31 July 2016	**4,050,252**	**1,241,566**	**65,633**	**9,114**	**4,692**	**646,700**	**233,252**	**28,996**	**(399,139)**	**18,476,669**	**24,357,735**	**534,115**	**24,891,850**

Consolidated Statement of Cash Flows

Year ended 31 July 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,237,457**	2,127,891
Adjustments for:			
Finance costs	8	**178,290**	180,016
Share of profits and losses of associates		**(17,233)**	(90,127)
Share of profits of joint ventures		**(770,469)**	(354,243)
Fair value gains on investment properties, net		**(51,539)**	(1,289,257)
Depreciation	7(a)	**62,119**	48,613
Amortisation of prepaid land lease payments	7(a)	**1,027**	1,027
Loss/(gain) on disposal of items of property, plant and equipment	6, 7(a)	**100**	(69)
Gain on bargain purchase upon acquisition of a subsidiary	6	**(3,128)**	—
Gain on disposal of associates	6	**(5,338)**	—
Fair value loss/(gain) on a listed equity investment at fair value through profit or loss	6, 7(a)	**4,247**	(3,415)
Impairment loss on an unlisted available-for-sale financial asset	7(a)	**—**	6,141
Interest income	6	**(12,623)**	(9,107)
Dividend income from unlisted available-for-sale financial assets	6	**(36,215)**	(97,149)
Employee share option benefits	7(a)	**461**	528
Foreign exchange differences, net		**6,308**	10,420
		593,464	531,269
Increase in properties under development for sale		**(625,625)**	(34,100)
Increase in loan receivables		**(21,910)**	(77,697)
Decrease in completed properties for sale		**319,539**	190,002
Increase in inventories		**(3,224)**	(4,598)
Decrease/(increase) in debtors, deposits paid and other receivables		**2,897**	(56,005)
Increase in creditors, deposits received and accruals		**53,880**	118,929
Cash generated from operations		**319,021**	667,800
Interest received		**12,623**	9,107
Interest paid on bank borrowings		**(110,841)**	(93,292)
Interest paid on guaranteed notes		**(154,928)**	(154,671)
Hong Kong profits tax paid		**(64,271)**	(25,890)
Overseas taxes paid		**(23,827)**	(6,149)
Net cash flows (used in)/from operating activities		**(22,223)**	396,905

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(540,870)**	(1,622,402)
Additions to investment properties		**(261,886)**	(1,373,780)
Deposits paid for purchase of items of property, plant and equipment	21	**(13,498)**	(9,321)
Deposits paid for additions to investment properties	21	**(6,578)**	—
Acquisition of unlisted available-for-sale financial assets		**(35,433)**	(14,837)
Proceeds from disposal of items of property, plant and equipment		**397**	466
Proceeds from disposal of investment properties		**—**	1,620
Acquisition of subsidiaries	42	**33,248**	—
Advances to associates		**(11,820)**	(13,144)
Repayment from associates		**2,080**	6,551
Advances to joint ventures		**(50,000)**	(110,025)
Repayment from a joint venture		**75**	534,939
Dividend received from a joint venture		**—**	10,000
Dividends received from unlisted available-for-sale financial assets		**36,215**	97,149
Increase in pledged bank balances and time deposits		**(30,774)**	(47,418)
Net cash flows used in investing activities		**(878,844)**	(2,540,202)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings raised		**3,823,089**	2,127,465
Repayment of bank borrowings		**(2,393,476)**	(468,175)
Bank financing charges		**(117,846)**	(30,661)
Net proceeds from rights issue	29(c)	**912,683**	—
Proceeds from subscription of a rights issue of a subsidiary by non-controlling interests		**45,122**	—
Dividend paid		**(48,228)**	(44,557)
Dividends paid to non-controlling shareholders		**(61,005)**	(65,968)
Capital contribution from non-controlling shareholders of subsidiaries		**35,060**	26,820
Net cash flows from financing activities		**2,195,399**	1,544,924
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,294,332**	(598,373)
Cash and cash equivalents at beginning of year		**1,068,038**	1,671,478
Effect of foreign exchange rate changes, net		**(7,688)**	(5,067)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,354,682**	1,068,038
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Non-pledged cash and bank balances		**820,727**	485,284
Non-pledged time deposits		**1,533,955**	582,754
		2,354,682	1,068,038

1. Corporate and Group Information

Lai Sun Development Company Limited (the "**Company**") is a limited liability company incorporated in Hong Kong with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The registered office of the Company is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong. In the opinion of the directors, the Company's ultimate holding company is Lai Sun Garment (International) Limited ("**LSG**"), a limited liability company incorporated in Hong Kong with its shares listed on the Main Board of the Stock Exchange.

During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") were involved in the following principal activities:

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

Details of the principal subsidiaries are set out in note 39 to the financial statements.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments at fair value through profit or loss and certain available-for-sale financial assets, 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 31 July 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 Basis of Preparation (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

There were no new or revised standards adopted for the first time for the current year's financial statements.

2.3 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.

HKFRS 9	*Financial Instruments* [3]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions* [3]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [6]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception* [1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations* [1]
HKFRS 14	*Regulatory Deferral Accounts* [5]
HKFRS 15	*Revenue from Contracts with Customers* [3]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers* [3]
HKFRS 16	*Leases* [4]
Amendments to HKAS 1	*Disclosure Initiative* [1]
Amendments to HKAS 7	*Disclosure Initiative* [2]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses* [2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* [1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants* [1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements* [1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs* [1]

[1] *Effective for annual periods beginning on or after 1 January 2016*
[2] *Effective for annual periods beginning on or after 1 January 2017*
[3] *Effective for annual periods beginning on or after 1 January 2018*
[4] *Effective for annual periods beginning on or after 1 January 2019*
[5] *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*
[6] *No mandatory effective date yet determined but available for early adoption*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Investments in associates and joint ventures

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position 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.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 July. 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.

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

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement

The Group measures its investment properties, equity investments at fair value and certain available-for-sale financial assets at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development for sale, completed properties for sale, inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, but 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 an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

 (i) has control or joint control over the Group;

 (ii) has significant influence over the Group; or

 (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

 (i) the entity and the Group are members of the same group;

 (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

 (iii) the entity and the Group are joint ventures of the same third party;

 (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

Related parties (continued)

(b) (continued)

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Hotel properties	Over the remaining lease terms
Leasehold buildings	Over the remaining lease terms
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	20%
Motor vehicles	17% - 25%
Computers	20% - 33%
Motor vessels	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised 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.

Construction in progress represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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. These include properties that are being constructed or developed for future use as investment properties. 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 end of the reporting period, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time.

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.

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.

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

2.4 Summary of Significant Accounting Policies (continued)

Properties under development for sale

Properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the construction or development of these properties is completed, these properties are reclassified to the appropriate categories of assets.

Completed properties for sale

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to income statement. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the income statement as other revenue in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial 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 loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

2.4 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

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

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

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 end of the reporting period 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 relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when 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.

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

- when 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 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e., based on the expected manner as to how the properties will be recovered).

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

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

(a) revenue from the sale of properties is recognised when the significant risks and rewards of properties are transferred to the purchasers, which refers to the time when the construction of relevant properties has been completed and the properties are ready for delivery to the purchasers pursuant to the sales agreements, and collectability of the related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position as deposits received;

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

(c) service income from hotel and restaurant operations and the provision of other related services is recognised when such services have been provided to customers;

(d) revenue from the sale of food and other operating items is recognised when the food and other operating items are sold to customers and the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the food and other operating items sold;

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

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum of association and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the 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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

Employee benefits

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Binomial Option Pricing Model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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.

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Paid leave carried forward

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

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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.

The employees of the Group's subsidiaries which operate in Vietnam and the People's Republic of China (the "**PRC**") are required to participate in central pension schemes operated by the respective governments in Vietnam and the PRC. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Impairment of assets

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

3. Significant Accounting Judgements and Estimates (continued)

Judgements (continued)

Provision for tax indemnity

Provision for tax indemnity is recognised when a present obligation (legal or constructive) has arisen as a result of tax liability arising from disposal of certain property interests in the PRC pursuant to certain indemnity deeds entered into by the Group and it is probable that such tax liability will be required to be settled. Management's judgement is required to determine (i) the estimated sales proceeds and outgoings; and (ii) the latest development plan and status of individual property development projects. Further details are included in note 33(b) to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, are described below.

Estimation of fair values of investment properties and available-for-sale financial assets

The best evidence of fair value is current prices in an active market for similar properties in the same location and condition and subject to similar leases and other contracts. In the absence of such information, management determines the amount within a range of reasonable fair value estimates. In making its judgement, management considers information from (i) independent valuations; (ii) current prices in an active market for properties of a different nature, condition or location by reference to available market information; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates 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 carrying amount at fair value of investment properties as at 31 July 2016 was approximately HK$15,147,376,000 (2015: HK$15,236,780,000) and that of an available-for-sale financial asset, of which the principal asset is an investment property, as at 31 July 2016 was approximately HK$1,204,693,000 (2015: HK$1,051,018,000).

Estimation of total budgeted costs and costs to completion for properties under development for sale

The total budgeted costs for properties under development for sale comprise (i) prepaid land lease payments; (ii) construction costs; and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development for sale, management refers to information such as (i) current offers from contractors and suppliers; and (ii) professional estimation on construction and material costs.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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, 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 are 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.

4. Segment Information

For management purposes, the Group has the following reportable segments:

(a) the property development and sales segment engages in property development and sale of properties;

(b) the property investment segment engages in the leasing of and sale of investment properties and development of properties for investment purposes;

(c) the hotel operation segment engages in the operation of and provision of consultancy services to hotels;

(d) the restaurant operation segment engages in the operation of and provision of consultancy services to restaurants; and

(e) the "others" segment comprises the Group's property management and consultancy services business, which provides property management, security and consultancy services to residential, office, industrial and commercial properties, and project management services to property development projects.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that fair value gains on investment properties, interest income, finance costs, dividend income, share of profits and losses of associates and share of profits of joint ventures are excluded from such measurement.

Segment assets mainly exclude interests in associates, interests in joint ventures, available-for-sale financial assets, equity investments at fair value through profit or loss, pledged bank balances and time deposits, and certain cash and cash equivalents.

Segment liabilities mainly exclude bank borrowings, guaranteed notes, tax payable, deferred tax and provision for tax indemnity.

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

4. Segment Information (continued)

Segment revenue and results

The following table presents revenue and results for the Group's reportable segments:

	Property development and sales		Property investment		Hotel operation		Restaurant operation		Others		Eliminations		Consolidated	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Segment revenue:														
Sales to external customers	**468,691**	277,811	**701,643**	655,476	**391,683**	383,973	**280,664**	201,726	**25,653**	22,700	**—**	—	**1,868,334**	1,541,686
Intersegment sales	**—**	—	**15,353**	12,400	**360**	360	**—**	—	**24,659**	22,700	**(40,372)**	(35,460)	**—**	—
Other revenue	**3,997**	4,703	**1,085**	1,357	**15**	25	**8,525**	—	**8,409**	5,159	**—**	—	**22,031**	11,244
Total	**472,688**	282,514	**718,081**	669,233	**392,058**	384,358	**289,189**	201,726	**58,721**	50,559	**(40,372)**	(35,460)	**1,890,365**	1,552,930
Segment results	**103,524**	53,301	**573,239**	535,444	**76,173**	69,956	**(27,851)**	(8,587)	**3,846**	(8,171)	**—**	—	**728,931**	641,943
Interest income from bank deposits — unallocated													**4,872**	3,977
Unallocated revenue													**41,332**	113,605
Fair value gains on investment properties, net	**—**	—	**51,539**	1,289,257	**—**	—	**—**	—	**—**	—	**—**	—	**51,539**	1,289,257
Unallocated expenses													**(198,629)**	(185,245)
Profit from operating activities													**628,045**	1,863,537
Finance costs													**(178,290)**	(180,016)
Share of profits and losses of associates	**986**	444	**—**	—	**—**	—	**(7,670)**	(2,462)	**—**	—	**—**	—	**(6,684)**	(2,018)
Share of profits and losses of associates — unallocated													**23,917**	92,145
Share of profits of joint ventures	**(4,127)**	(686)	**774,596**	354,929	**—**	—	**—**	—	**—**	—	**—**	—	**770,469**	354,243
Profit before tax													**1,237,457**	2,127,891
Tax													**(57,691)**	(79,397)
Profit for the year													**1,179,766**	2,048,494

4. Segment Information (continued)

The following table presents the total assets and liabilities and other segment information for the Group's reportable segments:

	Property development and sales		Property investment		Hotel operation		Restaurant operation		Others		Consolidated	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment assets and liabilities												
Segment assets	**1,690,614**	1,349,283	**15,312,609**	15,367,059	**3,070,692**	2,503,471	**626,357**	381,659	**152,583**	135,991	**20,852,855**	19,737,463
Interests in associates	**7,343**	7,114	**—**	—	**—**	—	**(1,061)**	21,669	**—**	—	**6,282**	28,783
Interests in associates — unallocated											**3,654,553**	3,901,526
Interests in joint ventures	**990,385**	948,346	**5,763,968**	4,989,447	**—**	—	**—**	—	**—**	—	**6,754,353**	5,937,793
Unallocated assets											**3,285,398**	2,001,313
Total assets											**34,553,441**	31,606,878
Segment liabilities	**62,467**	99,813	**187,129**	184,020	**195,510**	122,509	**47,472**	20,976	**6,163**	8,344	**498,741**	435,662
Bank borrowings											**5,402,429**	4,283,202
Guaranteed notes											**2,709,227**	2,703,324
Other unallocated liabilities											**1,051,194**	1,081,116
Total liabilities											**9,661,591**	8,503,304
Other segment information												
Amortisation of prepaid land lease payments	**—**	—	**—**	—	**1,027**	1,027	**—**	—	**—**	—	**1,027**	1,027
Depreciation	**225**	352	**137**	322	**17,205**	17,615	**33,773**	19,273	**95**	69	**51,435**	37,631
Depreciation — unallocated											**10,684**	10,982
											62,119	48,613
Capital expenditure	**—**	—	**261,888**	1,384,367	**565,472**	1,850,422	**96,217**	15,898	**155**	262	**923,732**	3,250,949
Capital expenditure — unallocated											**4,488**	7,998
											928,220	3,258,947

4. Segment Information (continued)

Geographical information

The following table presents revenue and assets by geographical location of the assets:

	Hong Kong		United Kingdom		Vietnam		Others		Consolidated	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment revenue										
Sales to external customers	**1,328,949**	1,035,066	**149,713**	122,946	**385,903**	380,775	**3,769**	2,899	**1,868,334**	1,541,686
Other revenue	**21,626**	11,219	**391**	—	**—**	4	**14**	21	**22,031**	11,244
Total	**1,350,575**	1,046,285	**150,104**	122,946	**385,903**	380,779	**3,783**	2,920	**1,890,365**	1,552,930
Segment assets										
Non-current assets	**16,876,046**	15,401,620	**2,512,864**	2,665,250	**263,781**	269,930	**985**	1,430	**19,653,676**	18,338,230
Current assets	**820,506**	954,557	**30,247**	76,713	**345,692**	364,060	**2,734**	3,903	**1,199,179**	1,399,233
Total	**17,696,552**	16,356,177	**2,543,111**	2,741,963	**609,473**	633,990	**3,719**	5,333	**20,852,855**	19,737,463

Information about major customers

For both the years ended 31 July 2016 and 31 July 2015, there was no revenue derived from a single customer which contributed more than 10% of the Group's revenue for the respective years.

5. Related Party Transactions

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

(a) Transactions with related parties

		2016 HK$'000	2015 HK$'000
Rental income and building management fee received or receivable from eSun Holdings Limited ("**eSun**") and its subsidiaries (collectively the "**eSun Group**"), an associate	Note	**11,966**	11,267
Sharing of corporate salaries on a cost basis allocated to:			
— LSG		**7,546**	8,657
— the eSun Group		**44,710**	41,678
Sharing of administrative expenses on a cost basis allocated to:			
— LSG		**1,826**	2,605
— the eSun Group		**6,129**	8,631
Rental expenses and building management fees paid or payable to:			
— an associate of LSG	Note	**2,087**	1,991
— the eSun Group	Note	**69**	73
Sharing of corporate salaries on a cost basis allocated from:			
— LSG		**5,545**	5,415
— the eSun Group		**5,196**	4,702
Sharing of administrative expenses on a cost basis allocated from:			
— LSG		**1**	22
— the eSun Group		**1,359**	351
Underwriting commission paid to LSG		**9,733**	—

Note: These transactions were entered into based on terms stated in the respective agreements or contracts and were charged on bases mutually agreed by the respective parties.

Certain of the above related party transactions also constitute continuing connected transactions as defined in chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and their details are disclosed in the Report of the Directors.

5. Related Party Transactions (continued)

(b) Compensation of key management personnel of the Group

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**31,290**	33,846
Post-employment benefits	**264**	260
Total compensation paid to key management personnel	**31,554**	34,106

Further details of directors' emoluments are included in note 9 to the financial statements.

6. Turnover and Other Revenue

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

An analysis of turnover and other revenue are as follows:

	2016 HK$'000	2015 HK$'000
Turnover		
Sale of properties	**468,691**	277,811
Rental income and building management fee	**701,643**	655,476
Hotel, restaurant and other operations	**698,000**	608,399
	1,868,334	1,541,686
Other revenue		
Interest income from bank deposits	**4,872**	3,977
Other interest income	**7,751**	5,130
Dividend income from unlisted available-for-sale financial assets	**36,215**	97,149
Gain on disposal of items of property, plant and equipment	**—**	69
Gain on disposal of associates	**5,338**	—
Gain on bargain purchase upon acquisition of a subsidiary (note 42)	**3,128**	—
Fair value gain on a listed equity investment at fair value through profit or loss	**—**	3,415
Others	**10,931**	19,086
	68,235	128,826

7. Profit from Operating Activities

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**111,809**	80,132
Cost of completed properties sold		**336,139**	198,892
Depreciation#	14	**62,119**	48,613
Amortisation of prepaid land lease payments*	15	**1,027**	1,027
Staff costs (including directors' remuneration — note 9):			
Wages and salaries		**288,324**	256,095
Pension scheme contributions		**8,076**	6,704
Employee share option benefits		**461**	528
		296,861	263,327
Auditors' remuneration		**3,508**	2,885
Loss/(gain) on disposal of items of property, plant and equipment		**100***	(69)@
Impairment loss on an unlisted available-for-sale financial asset*		**—**	6,141
Fair value loss/(gain) on a listed equity investment at fair value through profit or loss		**4,247***	(3,415)@
Minimum lease payments under operating leases		**37,749**	20,915
Contingent rents		**4,264**	2,628
Total operating lease payments^		**42,013**	23,543
Minimum lease income under operating leases		**(701,230)**	(654,286)
Contingent rents		**(414)**	(1,190)
Total operating lease income		**(701,644)**	(655,476)
Less: Outgoings		**93,304**	83,664
Net rental income		**(608,340)**	(571,812)
Foreign exchange differences, net*		**6,625**	11,587

Depreciation charge of approximately HK$57,482,000 (2015: HK$44,352,000) for property, plant and equipment is included in "other operating expenses" on the consolidated income statement.

^ Operating lease payments of approximately HK$35,903,000 (2015: HK$18,511,000) are included in "other operating expenses" on the consolidated income statement.

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

@ These items are included in "other revenue" on the consolidated income statement.

(b) Other than those mentioned in note 7(a) above, "other operating expenses" also included service fee for operation of a club in the Group's hotel operation in Vietnam of approximately HK$64,616,000 (2015: HK$67,296,000).

8. Finance Costs

	2016 HK$'000	2015 HK$'000
Interest on bank borrowings	**111,396**	92,694
Interest on guaranteed notes	**159,085**	158,825
Bank financing charges	**41,839**	22,727
	312,320	274,246
Less: Amount capitalised in a hotel development project (note 14)	**(91,097)**	(72,000)
Amount capitalised in properties under development for sale (note 17)	**(42,933)**	(22,230)
	178,290	180,016

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 4.40% (2015: 4.45%) has been applied to the expenditure on the individual assets for the year ended 31 July 2016.

9. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$'000	2015 HK$'000
Fees	**1,325**	1,250
Other emoluments:		
Salaries, allowances and benefits in kind	**29,965**	32,596
Pension scheme contributions	**264**	260
	30,229	32,856
	31,554	34,106

9. Directors' Remuneration (continued)

The remuneration paid to executive directors, non-executive directors and independent non-executive directors during the year were as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2016				
Executive directors:				
Lam Kin Ngok, Peter	—	15,778	18	15,796
Chew Fook Aun	—	7,883	18	7,901
Lau Shu Yan, Julius^	—	4,538	210	4,748
Lam Hau Yin, Lester	—	1,766	18	1,784
	—	29,965	264	30,229
Non-executive directors:				
Lam Kin Ming	250	—	—	250
U Po Chu	250	—	—	250
	500	—	—	500
Independent non-executive directors:				
Ip Shu Kwan, Stephen	275	—	—	275
Lam Bing Kwan	275	—	—	275
Leung Shu Yin, William	275	—	—	275
	825	—	—	825
	1,325	29,965	264	31,554

9. Directors' Remuneration (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2015				
Executive directors:				
Lam Kin Ngok, Peter	—	18,174	18	18,192
Chew Fook Aun	—	8,089	18	8,107
Lau Shu Yan, Julius^	—	4,638	206	4,844
Lam Hau Yin, Lester	—	1,695	18	1,713
	—	32,596	260	32,856
Non-executive directors:				
Lam Kin Ming	250	—	—	250
U Po Chu	250	—	—	250
	500	—	—	500
Independent non-executive directors:				
Ip Shu Kwan, Stephen	250	—	—	250
Lam Bing Kwan	250	—	—	250
Leung Shu Yin, William	250	—	—	250
	750	—	—	750
	1,250	32,596	260	34,106

^ Lau Shu Yan, Julius is also the chief executive officer of the Company.

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

10. Employees' Remuneration

The five highest paid employees during the year included three (2015: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2015: two) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	**6,498**	5,308
Pension scheme contributions	**120**	111
	6,618	5,419

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

	Number of employees	
	2016	2015
HK$2,000,001 to HK$2,500,000	**1**	1
HK$3,000,001 to HK$3,500,000	**—**	1
HK$4,000,001 to HK$4,500,000	**1**	—

11. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

11. TAX (CONTINUED)

	2016 HK$'000	2015 HK$'000
Current tax		
Hong Kong	**38,494**	44,321
Overseas	**26,724**	23,135
	65,218	67,456
Deferred tax (note 28)	**6,933**	9,400
Prior years' (overprovision)/underprovision		
Hong Kong	**(20)**	(35)
Overseas	**(14,440)**	2,576
	(14,460)	2,541
Tax charge for the year	**57,691**	79,397

A reconciliation of the tax charge applicable to profit before tax at the statutory rate for the location in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2016 HK$'000	2015 HK$'000
Profit before tax	**1,237,457**	2,127,891
Less: Share of profits and losses of associates	**(17,233)**	(90,127)
Share of profits of joint ventures	**(770,469)**	(354,243)
Profit before tax attributable to the Group	**449,755**	1,683,521
Tax at the statutory tax rate of 16.5% (2015: 16.5%)	**74,210**	277,781
Higher tax rate for other countries	**2,433**	6,655
Adjustments in respect of current tax of previous periods	**(14,460)**	2,541
Income not subject to tax	**(38,124)**	(251,927)
Expenses not deductible for tax purposes	**33,078**	42,121
Tax losses utilised from previous periods	**(19,209)**	(5,187)
Tax losses not recognised	**19,763**	7,413
Tax charge for the year	**57,691**	79,397

12. Dividend

	2016 HK$'000	2015 HK$'000
Proposed final — HK0.19 cent (2015: HK0.25 cent) per ordinary share	**57,302**	50,236

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 Owners of the Company

	2016 HK$'000	2015 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share	**1,148,390**	2,018,262
Effect of dilutive potential ordinary shares arising from adjustment to the share of profit of an associate based on dilution of its earnings per share	**—**	(90)
Earnings for the purpose of diluted earnings per share	**1,148,390**	2,018,172

	'000	'000 (Adjusted)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**25,305,631**	20,693,323
Effect of dilutive potential ordinary shares arising from share options	**17,411**	85,430
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**25,323,042**	20,778,753

The exercise of share options of an associate and the conversion of the outstanding convertible notes issued by an associate have an anti-dilutive effect on the basic earnings per share as presented during the year ended 31 July 2016.

The basic and diluted earnings per share for the year ended 31 July 2015 have been adjusted to reflect the effect of the rights issue of the Company during the year (note 29(c)).

14. PROPERTY, PLANT AND EQUIPMENT

	Notes	Hotel properties HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Computers HK$'000	Motor vessels HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:										
At 1 August 2014		357,035	237,627	109,447	152,102	23,965	15,617	53,594	13,258	962,645
Finance cost capitalised	8	—	—	—	—	—	—	—	72,000	72,000
Additions		—	—	9,616	10,355	9,519	756	—	1,772,396	1,802,642
Disposals/write-off		—	—	(14)	(37,096)	(4,311)	(3,345)	—	—	(44,766)
At 31 July 2015 and 1 August 2015		357,035	237,627	119,049	125,361	29,173	13,028	53,594	1,857,654	2,792,521
Finance cost capitalised	8	—	—	—	—	—	—	—	91,097	91,097
Additions		—	—	45,891	35,024	686	2,879	1,885	463,826	550,191
Acquisition of subsidiaries	42	—	—	14,624	10,217	—	205	—	—	25,046
Disposals/write-off		—	—	(2,153)	(11,568)	(37)	(171)	—	—	(13,929)
At 31 July 2016		**357,035**	**237,627**	**177,411**	**159,034**	**29,822**	**15,941**	**55,479**	**2,412,577**	**3,444,926**
Accumulated depreciation:										
At 1 August 2014		139,055	25,065	56,147	115,336	23,302	12,116	36,989	—	408,010
Depreciation provided during the year	7(a)	8,209	4,858	14,337	12,680	2,478	1,307	4,744	—	48,613
Disposals/write-off		—	—	(7)	(36,478)	(4,311)	(3,573)	—	—	(44,369)
At 31 July 2015 and 1 August 2015		147,264	29,923	70,477	91,538	21,469	9,850	41,733	—	412,254
Depreciation provided during the year	7(a)	8,209	4,857	25,043	15,440	2,586	1,706	4,278	—	62,119
Disposals/write-off		—	—	(2,152)	(11,194)	(1)	(85)	—	—	(13,432)
At 31 July 2016		**155,473**	**34,780**	**93,368**	**95,784**	**24,054**	**11,471**	**46,011**	**—**	**460,941**
Net carrying amount:										
At 31 July 2016		**201,562**	**202,847**	**84,043**	**63,250**	**5,768**	**4,470**	**9,468**	**2,412,577**	**2,983,985**
At 31 July 2015		209,771	207,704	48,572	33,823	7,704	3,178	11,861	1,857,654	2,380,267

At 31 July 2016, the Group's construction in progress with a carrying amount of approximately HK$2,390,355,000 (2015: Nil) were pledged to banks to secure banking facilities granted to the Group (note 26).

15. Prepaid Land Lease Payments

	2016 HK$'000	2015 HK$'000
Cost:		
At beginning and end of year	**35,960**	35,960
Accumulated amortisation:		
At beginning of year	**14,032**	13,005
Amortisation provided for the year (note 7(a))	**1,027**	1,027
At end of year	**15,059**	14,032
Net carrying amount:		
At beginning of year	**21,928**	22,955
At end of year	**20,901**	21,928

16. Investment Properties

	2016 HK$'000	2015 HK$'000
Carrying amount at beginning of year	**15,236,780**	12,669,295
Exchange realignment	**(402,829)**	(104,536)
Additions, at cost	**261,886**	1,384,305
Disposal	**—**	(1,541)
Fair value gains, net	**51,539**	1,289,257
Carrying amount at end of year	**15,147,376**	15,236,780

Most of the investment properties of the Group are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

Certain investment properties of the Group with carrying amounts of approximately HK$14,912,746,000 (2015: HK$15,025,950,000) were pledged to banks to secure banking facilities granted to the Group (note 26).

16. Investment Properties (continued)

Valuation process

The directors of the Company have determined that all investment properties are completed properties held for rental, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 July 2016 based on valuations performed by Savills Valuation and Professional Services Limited and Savills (UK) Limited, independent professionally qualified valuers, at HK$12,684,630,000 (2015: HK$12,580,830,000) and HK$2,462,746,000 (2015: HK$2,655,950,000), respectively. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuations are performed for interim and annual financial reporting.

Valuation techniques

Fair value measurement using significant unobservable inputs (Level 3)

Fair value of investment properties is generally determined using the income capitalisation method and, wherever appropriate, by the direct comparison method. The income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from an analysis of sales transactions and valuers' interpretations of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation are determined with reference to recent lettings, within the subject properties and other comparable properties. The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently been transacted.

Information about fair value measurement using significant unobservable inputs (Level 3)

2016

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed properties held for rental	Income capitalisation method	Average monthly market rent per square foot	HK$13 to HK$350	The higher the market rent, the higher the fair value
		Capitalisation rate	3.4% to 5.4%	The higher the capitalisation rate, the lower the fair value

16. Investment Properties (continued)

Valuation techniques (continued)

Information about fair value measurement using significant unobservable inputs (Level 3) (continued)

2015

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Completed properties held for rental	Income capitalisation method	Average monthly market rent per square foot	HK$13 to HK$332	The higher the market rent, the higher the fair value
		Capitalisation rate	3.4% to 5.2%	The higher the capitalisation rate, the lower the fair value

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

17. Properties Under Development For Sale

	2016 HK$'000	2015 HK$'000
At beginning of year, at cost	**653,845**	109,158
Additions	**625,625**	522,457
Interest and bank financing charges capitalised (note 8)	**42,933**	22,230
At end of year, at cost	**1,322,403**	653,845

As at 31 July 2016, certain of the Group's properties under development for sale with a total carrying amount of approximately HK$634,624,000 (2015: HK$545,247,000) were pledged to banks to secure banking facilities granted to the Group (note 26).

18. Interests in Associates/Interests in Joint Ventures

(a) Interests in associates

	2016 HK$'000	2015 HK$'000
Share of net assets	**3,495,531**	3,751,527
Amounts due from associates	**340,550**	356,676
Provision for impairment	**(175,246)**	(177,894)
	3,660,835	3,930,309
Market value of listed shares at the end of the reporting period	**390,903**	422,175

18. Interests in Associates/Interests in Joint Ventures (continued)

(a) Interests in associates (continued)

The amounts due from associates are unsecured, interest-free and not expected to be repayable in the foreseeable future. In the opinion of the directors, these balances are considered as part of the Group's net investments in the associates.

The provision for impairment in respect of the amounts due from associates at the end of the reporting period was determined on the basis of the amounts recoverable from the associates with reference to the fair value of the underlying assets held by the associates.

During the year, the provision for impairment decreased by approximately HK$2,648,000 which represented exchange differences (2015: HK$876,000).

Details of the principal associates are set out in note 40 to the financial statements.

The eSun Group

The financial year end date of the eSun Group, which is considered as a principal associate of the Group, is coterminous with that of the Group.

The eSun Group is accounted for using the equity method in these financial statements.

(i) In June 2014, a wholly-owned subsidiary of eSun issued RMB650 million of 8.375% secured guaranteed notes which will mature in 2018. In relation to these notes, the Company entered into a keepwell and security shortfall support deed (the "**Keepwell Deed**") and a deed of equity interest purchase undertaking (the "**Undertaking Deed**") on 17 June 2014.

Pursuant to the Keepwell Deed and the Undertaking Deed, the Company shall, if eSun Group defaults on the notes and the proceeds from disposal of eSun Group's assets charged as security are insufficient to discharge the relevant amounts outstanding under the notes, use its best endeavours to as soon as reasonably practicable obtain all relevant approvals, including shareholders' approvals, to (i) provide sufficient funds to eSun Group so as to satisfy the security shortfall amount, if any; (ii) invest or procure a subsidiary to invest in eSun Group by way of an equity investment or advancement of shareholders' loan or a combination thereof; and (iii) purchase the equity interest held by eSun Group as prescribed under the Undertaking Deed.

During the year, eSun Group repurchased and cancelled a total of RMB581 million in principal amount of the notes. eSun Group also redeemed and cancelled a total of RMB69 million in principal amount of the outstanding notes. The Keepwell Deed and the Undertaking Deed were cancelled accordingly.

18. Interests in Associates/Interests in Joint Ventures (continued)

(a) Interests in associates (continued)

The eSun Group (continued)

The below summarised financial information is extracted from the published consolidated financial statements of the eSun Group. The consolidated financial statements of the eSun Group are prepared in accordance with HKFRSs and comply with the Group's accounting policies.

	31 July 2016 HK$'000	31 July 2015 HK$'000
Current assets	**7,407,402**	7,811,709
Non-current assets	**20,994,349**	21,064,984
Total assets	**28,401,751**	28,876,693
Current liabilities	**(3,175,552)**	(4,753,177)
Non-current liabilities	**(8,961,415)**	(6,981,001)
Total liabilities	**(12,136,967)**	(11,734,178)
Equity attributable to owners of eSun	**8,599,258**	9,164,680
Non-controlling interests	**7,665,526**	7,977,835
Total equity	**16,264,784**	17,142,515

	Year ended 31 July 2016 HK$'000	Year ended 31 July 2015 HK$'000
Turnover	**3,369,275**	3,329,495
Other revenue (including other operating gains and share of profits and losses of associates)	**205,069**	247,892
Fair value gains on investment properties	**522,043**	964,632
Share of profits and losses of joint ventures	**79,623**	83,703
Expenses	**(3,863,004)**	(4,003,846)
Profit for the year	**313,006**	621,876
Other comprehensive expense for the year	**(1,104,025)**	(141,109)
Total comprehensive (expense)/income for the year	**(791,019)**	480,767
Profit for the year attributable to owners of eSun	**80,825**	258,231
Total comprehensive (expense)/income for the year attributable to owners of eSun	**(502,306)**	197,975

18. INTERESTS IN ASSOCIATES/INTERESTS IN JOINT VENTURES (CONTINUED)

(a) Interests in associates (continued)

The eSun Group (continued)

Reconciliation of the above summarised financial information of the eSun Group to the carrying amount of the interests in associates recognised in the consolidated financial statements is as follows:

	31 July 2016 HK$'000	31 July 2015 HK$'000
Net assets attributable to owners of eSun	**8,599,258**	9,164,680
The Group's 41.92% (2015: 41.92%) interest in the eSun Group	**3,604,809**	3,841,834
The Group's share of net liabilities of the remaining associates not individually material	**(109,278)**	(90,307)
The Group's share of net assets of associates	**3,495,531**	3,751,527

	Year ended 31 July 2016 HK$'000	Year ended 31 July 2015 HK$'000
The Group's share of loss and total comprehensive expense of the remaining associates not individually material	**(16,649)**	(18,123)

(b) Interests in joint ventures

	2016 HK$'000	2015 HK$'000
Share of net assets	**4,728,150**	3,961,515
Amounts due from joint ventures	**2,026,203**	1,976,278
	6,754,353	5,937,793

The amounts due from joint ventures are unsecured, interest-free and not expected to be repayable in the foreseeable future. In the opinion of the directors, these balances are considered as part of the Group's net investments in the joint ventures.

18. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Certain shares in joint ventures held by the Group were pledged to banks to secure banking facilities granted to the joint ventures.

All joint ventures are 50% held by the Group and are accounted for using the equity method in these financial statements. During the year, no dividend was declared by the joint ventures (2015: HK$20,000,000).

Details of the principal joint ventures are set out in note 41 to the financial statements.

The summarised financial information below represents amounts shown in the financial statements of the respective joint ventures prepared in accordance with HKFRSs and complies with the Group's accounting policies.

Best Value International Limited and its subsidiaries (the "Best Value Group")

The Best Value Group, a 50%-owned joint venture, principally held a property for rental in Hong Kong. The property, "8 Observatory Road", is located at 8 Observatory Road, Tsim Sha Tsui, Hong Kong.

	31 July 2016 HK$'000	31 July 2015 HK$'000
Current assets	**81,882**	63,645
Non-current assets	**3,500,000**	3,000,000
Total assets	**3,581,882**	3,063,645
Current liabilities	**(59,218)**	(78,067)
Non-current liabilities	**(1,274,180)**	(1,274,180)
Total liabilities	**(1,333,398)**	(1,352,247)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**65,263**	62,415
Non-current financial liabilities (excluding trade and other payables)	**(1,274,180)**	(1,274,180)

18. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Best Value International Limited and its subsidiaries (the "Best Value Group") (continued)

	Year ended 31 July 2016 HK$'000	Year ended 31 July 2015 HK$'000
Turnover	**60,011**	—
Profit and total comprehensive income for the year	**537,086**	372,057

Reconciliation of the above summarised financial information of the Best Value Group to the carrying amount of the interest in the Best Value Group recognised in the consolidated financial statements is as follows:

	31 July 2016 HK$'000	31 July 2015 HK$'000
Net assets of the Best Value Group	**2,248,484**	1,711,398
The Group's 50% ownership interest in the Best Value Group	**1,124,242**	855,699
Amount due from the Best Value Group	**637,090**	637,090
Carrying amount of the Group's interest in the Best Value Group	**1,761,332**	1,492,789

18. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Diamond Path Limited and its subsidiaries (the "Diamond Path Group")

The Diamond Path Group, a 50%-owned joint venture, was principally engaged in development of a residential/commercial project in Hong Kong. The project, "Alto Residences", is located at Area 68A2, Tseung Kwan O, Hong Kong.

	31 July 2016 HK$'000	31 July 2015 HK$'000
Current assets	**67,495**	15,596
Non-current assets	**3,706,770**	3,312,961
Total assets	**3,774,265**	3,328,557
Current liabilities	**(7,827)**	(67,439)
Non-current liabilities	**(3,776,851)**	(3,263,309)
Total liabilities	**(3,784,678)**	(3,330,748)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**54,654**	15,084
Non-current financial liabilities (excluding trade and other payables and provisions)	**(3,760,576)**	(3,263,309)

	Year ended 31 July 2016 HK$'000	Year ended 31 July 2015 HK$'000
Turnover	**—**	—
Loss and total comprehensive expense for the year	**(8,223)**	(1,247)

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18. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Diamond Path Limited and its subsidiaries (the "Diamond Path Group") (continued)

Reconciliation of the above summarised financial information of the Diamond Path Group to the carrying amount of the interest in the Diamond Path Group recognised in the consolidated financial statements is as follows:

	31 July 2016 HK$'000	31 July 2015 HK$'000
Net liabilities of the Diamond Path Group	**(10,413)**	(2,191)
The Group's 50% ownership interest in the Diamond Path Group	**(5,206)**	(1,095)
Amount due from the Diamond Path Group	**995,591**	945,591
Carrying amount of the Group's interest in the Diamond Path Group	**990,385**	944,496

Diamond String Limited ("Diamond String")

Diamond String, a 50%-owned joint venture, principally held a property for rental in Hong Kong. The property, "CCB Tower", is located at 3 Connaught Road Central, Hong Kong.

	31 July 2016 HK$'000	31 July 2015 HK$'000
Current assets	**197,885**	233,201
Non-current assets	**8,812,404**	7,902,359
Total assets	**9,010,289**	8,135,560
Current liabilities	**(221,314)**	(244,347)
Non-current liabilities	**(1,570,748)**	(1,685,091)
Total liabilities	**(1,792,062)**	(1,929,438)

18. INTERESTS IN ASSOCIATES/INTERESTS IN JOINT VENTURES (CONTINUED)

(b) Interests in joint ventures (continued)

Diamond String Limited ("Diamond String") (continued)

	31 July 2016 HK$'000	31 July 2015 HK$'000
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**178,412**	204,923
Non-current financial liabilities (excluding trade and other payables and provisions)	**(1,484,318)**	(1,600,342)

	Year ended 31 July 2016 HK$'000	Year ended 31 July 2015 HK$'000
Turnover	**227,474**	227,297
Profit and total comprehensive income for the year	**1,012,105**	337,801
The above profit and total comprehensive income for the year include the following:		
Interest income	**227**	516
Interest expense	**(25,388)**	(25,891)

18. Interests in Associates/Interests in Joint Ventures (continued)

(b) Interests in joint ventures (continued)

Diamond String Limited ("Diamond String") (continued)

Reconciliation of the above summarised financial information of Diamond String to the carrying amount of the interest in Diamond String recognised in the consolidated financial statements is as follows:

	31 July 2016 HK$'000	31 July 2015 HK$'000
Net assets of Diamond String	**7,218,227**	6,206,122
The Group's 50% ownership interest in Diamond String	**3,609,114**	3,103,061
Amount due from Diamond String	**393,522**	393,597
Carrying amount of the Group's interest in Diamond String	**4,002,636**	3,496,658

19. Available-For-Sale Financial Assets

	2016 HK$'000	2015 HK$'000
Unlisted equity investments, at fair value	**1,368,774**	1,202,233
Unlisted equity investments, at cost	**38,460**	38,460
Provision for impairment	**(25,208)**	(25,208)
	1,382,026	1,215,485

As at 31 July 2016, unlisted investments of the Group with a carrying amount of approximately HK$13,252,000 (2015: HK$13,252,000) were stated at cost less impairment because the directors are of the opinion that the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value.

In the prior year, the directors considered an unlisted equity investment had been impaired and an impairment loss of approximately HK$6,141,000 was reclassified from other comprehensive income and recognised in the income statement for that year.

As at 31 July 2016, included in available-for-sale financial assets at fair value was an equity interest in Bayshore Development Group Limited ("**Bayshore**") of approximately HK$1,204,693,000 (2015: HK$1,051,018,000). The principal activity of Bayshore is property investment.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Valuation techniques

Fair value measurement using significant unobservable inputs (Level 3)

Fair value of the equity interest in Bayshore has been estimated using the fair value of investment property held by Bayshore, which is determined by the direct comparison method and the income capitalisation method detailed below.

The properties are valued by the direct comparison method on the assumption that each property can be sold in its existing state subject to existing tenancies or otherwise with the benefit of vacant possession and by referring to comparable sales transactions as available in the relevant markets. Comparison is based on prices realised on actual transactions or asking prices of comparable properties. Comparable properties with similar sizes, characters and locations are analysed, and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

The properties are also valued by the income capitalisation approach taking into account the rents passing of the properties and the reversionary potential of the tenancies, and reconciling the two approaches, if applicable.

Information about fair value measurement using significant unobservable inputs (Level 3)

2016

Valuation technique	Unobservable inputs		Relationship of unobservable inputs to fair value
Income capitalisation method	Average monthly market rent per square foot	HK$122	The higher the market rent, the higher the fair value
	Capitalisation rate	3.0%	The higher the capitalisation rate, the lower the fair value

2015

Valuation technique	Unobservable inputs		Relationship of unobservable inputs to fair value
Income capitalisation method	Average monthly market rent per square foot	HK$107	The higher the market rent, the higher the fair value
	Capitalisation rate	3.0%	The higher the capitalisation rate, the lower the fair value

20. Pledged Bank Balances and Time Deposits and Cash and Cash Equivalents

	2016	2015
	HK$'000	HK$'000
Cash and bank balances	**936,827**	586,250
Time deposits	**1,634,096**	667,255
	2,570,923	1,253,505
Less: Pledged balances for bank borrowings:		
Bank balances	**(116,100)**	(100,966)
Time deposits	**(100,141)**	(84,501)
Pledged bank balances and time deposits (note 26)	**(216,241)**	(185,467)
Cash and cash equivalents	**2,354,682**	1,068,038

The conversion of Vietnamese Dong ("**VND**")/Renminbi ("**RMB**") denominated cash and bank balances and time deposits into foreign currencies and the remittance of such foreign currencies denominated balances out of Vietnam/the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the respective government authorities concerned. As at 31 July 2016, such VND and RMB denominated cash and bank balances and time deposits of the Group amounted to approximately HK$261,276,000 (2015: HK$70,815,000) and approximately HK$1,073,000 (2015: HK$574,000), respectively.

Cash at banks earns interest at floating rates based on bank deposit rates. Short term time deposits are spread over varying periods up to one month based on the estimated cash requirements of the Group, and earn interest at the respective short term time deposit rates. Bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

21. Deposits Paid and Other Receivables

	2016 HK$'000	2015 HK$'000
Rental and other deposits	**19,025**	10,722
Loan receivables:		
Variable-rate mortgage loan receivables	**12,046**	15,128
Fixed-rate other loan receivables	**99,355**	97,569
	111,401	112,697
Other receivables	**30,560**	9,228
Deposits paid:		
For purchase of items of property, plant and equipment	**13,498**	9,321
For additions to investment properties	**6,578**	—
	20,076	9,321
	181,062	141,968

22. Completed Properties For Sale

The completed properties for sale were carried at cost at the end of the reporting period.

23. Equity Investments at Fair Value Through Profit or Loss

	2016 HK$'000	2015 HK$'000
Equity investments at market value	**—**	5,574

The above equity instruments as at the end of the reporting period were classified as held for trading.

24. Debtors, Deposits Paid and Other Receivables

The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Hotel and restaurant charges are mainly settled by customers on a cash basis except for those corporate clients who maintain credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements.

24. Debtors, Deposits Paid and Other Receivables (continued)

An ageing analysis of the trade debtors, based on the payment due date, as at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
Trade debtors:		
Not yet due or less than 30 days past due	**15,653**	7,257
31 - 60 days past due	**2,102**	1,358
61 - 90 days past due	**853**	403
Over 90 days past due	**3,492**	2,088
	22,100	11,106
Other receivables	**78,776**	50,112
Deposits paid and prepayments	**76,132**	114,454
	177,008	175,672

Debtors that were past due but not impaired mainly relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and rental deposits are received by the Group in advance from its customers, and accordingly, the balances are still considered fully recoverable. Other than rental deposits received, the Group does not hold any collateral or other credit enhancements over these balances.

25. Creditors, Deposits Received and Accruals

An ageing analysis of the trade creditors, based on the payment due date, as at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
Trade creditors:		
Not yet due or less than 30 days past due	**19,288**	11,611
31 - 60 days past due	**1,176**	458
61 - 90 days past due	**143**	22
Over 90 days past due	**1,148**	479
	21,755	12,570
Other payables and accruals	**285,696**	194,668
Deposits received and other provisions	**153,137**	202,063
	460,588	409,301

The trade creditors are non-interest-bearing and normally with one month credit period.

26. Bank Borrowings

	Effective annual interest rate (%)	2016 HK$'000	2015 HK$'000
Current			
Bank borrowings — secured	1.9 - 3.0 (2015: 2.0 - 3.4)	**126,709**	1,012,594
Non-current			
Bank borrowings — secured	1.9 - 3.0 (2015: 2.0 - 3.4)	**5,275,720**	3,270,608
		5,402,429	4,283,202

	2016 HK$'000	2015 HK$'000
Analysed into:		
Bank borrowings repayable:		
Within one year	**126,709**	1,012,594
In the second year	**154,229**	1,331,330
In the third to fifth years, inclusive	**5,121,491**	1,939,278
	5,402,429	4,283,202

The Group's bank borrowings as at the end of the reporting period were secured, inter alia, by:

(i) fixed charges over certain items of property, plant and equipment, certain investment properties and certain properties under development for sale of the Group with carrying amounts of approximately HK$2,390,355,000 (2015: Nil) (note 14), HK$14,912,746,000 (2015: HK$15,025,950,000) (note 16) and HK$634,624,000 (2015: HK$545,247,000) (note 17), respectively;

(ii) floating charges over all assets of certain subsidiaries of the Group with the aggregate carrying amounts of approximately HK$10,233,147,000 (2015: HK$7,075,238,000), of which the carrying amounts of the items of property, plant and equipment, investment properties and properties under development of approximately HK$2,390,355,000 (2015: Nil), HK$6,832,746,000 (2015: HK$6,985,950,000) and HK$634,624,000 (2015: Nil), respectively, are also included in note (i) above;

(iii) charges over certain bank balances and time deposits of the Group with an aggregate carrying amounts of approximately HK$216,241,000 (2015: HK$185,467,000) (note 20); and

(iv) charges over the shares of certain subsidiaries held by the Group (note 39).

27. Guaranteed Notes

On 18 January 2013, Lai Sun International Finance (2012) Limited, a wholly-owned subsidiary of the Company, issued guaranteed notes in an aggregate principal amount of US$350,000,000 (the "**Notes**"). The Notes are guaranteed by the Company, have a maturity term of five years and bear a fixed interest rate of 5.7% per annum with interest payable semi-annually in arrears.

The net proceeds from the offering of the Notes were approximately US$347,000,000 and were used for general corporate purposes.

	2016 **HK$'000**	2015 HK$'000
Guaranteed notes	**2,715,300**	2,713,550
Issue expenses	**(6,073)**	(10,226)
	2,709,227	2,703,324
Fair value of the Notes	**2,820,200**	2,747,300

The fair value was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at 31 July 2016 and 31 July 2015.

28. Deferred Tax

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

	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 August 2014	(114,044)	1,921	503	(111,620)
Deferred tax (charged)/credited to the consolidated income statement during the year (note 11)	(8,047)	(1,427)	74	(9,400)
At 31 July 2015 and 1 August 2015	(122,091)	494	577	(121,020)
Deferred tax charged to the consolidated income statement during the year (note 11)	(6,573)	(226)	(134)	(6,933)
Acquisition of subsidiaries (note 42)	255	—	(193)	62
At 31 July 2016	**(128,409)**	**268**	**250**	**(127,891)**

28. Deferred Tax (continued)

Apart from tax losses for which deferred tax had been recognised above, the Group had estimated tax losses of approximately HK$1.5 billion (2015: HK$1.5 billion) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as future taxable profits may not be available to utilise such losses in the foreseeable future.

At 31 July 2016, there was no significant unrecognised deferred tax liability (2015: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

29. Share Capital

	2016 Number of shares	**2016** Total amount HK$'000	2015 Number of shares	2015 Total amount HK$'000
Issued and fully paid ordinary shares	**30,159,108,707**	**4,050,252**	20,094,533,563	3,135,561

A summary of movements in the Company's share capital is as follows:

	Notes	**Number of shares in issue**	**Total amount** HK$'000
At 1 August 2014		20,062,893,286	3,129,961
Shares issued in lieu of cash dividend	a	31,640,277	5,600
At 31 July 2015 and 1 August 2015		20,094,533,563	3,135,561
Shares issued in lieu of cash dividend	b	17,308,363	2,008
Rights issue	c	10,047,266,781	912,683
At 31 July 2016		30,159,108,707	4,050,252

29. Share Capital (continued)

Notes:

a. On 9 December 2014, the Company's shareholders approved at the annual general meeting a final dividend of HK$0.0025 per share payable in cash with a scrip dividend alternative (the "**2014 Scrip Dividend Scheme**") for the year ended 31 July 2014 (the "**2014 Final Dividend**"). During the year ended 31 July 2015, 31,640,277 new shares were issued by the Company at a deemed price of HK$0.177 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2014 Scrip Dividend Scheme to settle HK$5,600,000 of the 2014 Final Dividend. The remaining balance of the 2014 Final Dividend of HK$44,557,000 was satisfied by cash.

   Further details of the 2014 Scrip Dividend Scheme are set out in the Company's circular dated 30 December 2014.

b. On 11 December 2015, the Company's shareholders approved at the annual general meeting a final dividend of HK$0.0025 per share payable in cash with a scrip dividend alternative (the "**2015 Scrip Dividend Scheme**") for the year ended 31 July 2015 (the "**2015 Final Dividend**"). During the year, 17,308,363 new shares were issued by the Company at a deemed price of HK$0.116 per share, credited as fully paid, to shareholders of the Company who had elected to receive scrip shares in lieu of cash under the 2015 Scrip Dividend Scheme to settle HK$2,008,000 of the 2015 Final Dividend. The remaining balance of the 2015 Final Dividend of HK$48,228,000 was satisfied by cash.

   Further details of the 2015 Scrip Dividend Scheme are set out in the Company's circular dated 30 December 2015.

c. Pursuant to the prospectus dated 18 January 2016, the Company proposed a rights issue of 10,047,266,781 shares on the basis of one rights share for every two existing shares of the Company at a subscription price of HK$0.092 per share. The rights issue was subsequently completed on 5 February 2016. The net proceeds from the rights issue of approximately HK$912,683,000, after deduction of rights issue expenses of approximately HK$11,665,000, were credited to share capital.

2006 Capital Reduction

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

29. Share Capital (continued)

2006 Capital Reduction (continued)

An undertaking in standard terms was given to the High Court by the Company in connection with the 2006 Capital Reduction. The undertaking is for the benefit of the Company's creditors as at the effective date of the 2006 Capital Reduction. Pursuant to the undertaking, any receipts by the Company on or after 1 August 2005 in respect of the Company's:

(1) 50% investment in Fortune Sign Venture Inc. ("**Fortune Sign**"), up to an aggregate amount of HK$1,556,000,000;

(2) 10% investment in Bayshore, up to an aggregate amount of HK$2,923,000,000; and/or

(3) 100% investment in Furama Hotel Enterprises Limited, up to an aggregate amount of HK$1,140,000,000

shall be credited to a special capital reserve in the accounting records of the Company. While any debt of or claim against the Company as at 18 October 2006 (the effective date of the 2006 Capital Reduction) remains outstanding, and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve pursuant to section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

The undertaking is subject to the following provisos:

(i) the amount standing to the credit of the special capital reserve may be applied for the same purposes as a share premium account may be applied or may be reduced or extinguished by the aggregate of any increase in the Company's issued share capital or share premium account resulting from an issue of shares for cash or other new consideration upon a capitalisation of distributable reserves after 18 October 2006 and the Company shall be at liberty to transfer the amount of any such reduction to the general reserve of the Company and the same shall become available for distribution;

(ii) the aggregate limit in respect of the special capital reserve may be reduced after the disposal or other realisation of any of the assets being the subject of the undertaking (as referred to at (1) to (3) above) by the amount of the individual limit for the asset in question less such amount (if any) as is credited to the special capital reserve as a result of such disposal or realisation; and

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

In prior years, an aggregate amount of HK$630,400,000, which comprised (i) the reversal of provision for impairment of the Company's interest in Peakflow Profits Limited ("**Peakflow**"), a wholly-owned subsidiary, which holds a 10% equity interest in Bayshore, to the extent of HK$372,072,000; and (ii) the recognition of dividend income from the Company's investment in Fortune Sign of HK$258,328,000, was transferred from accumulated losses to the special capital reserve of the Company.

29. Share Capital (continued)

2006 Capital Reduction (continued)

After the effective date of the 2006 Capital Reduction, the Company entered into a placing agreement dated 17 November 2006 pursuant to which a total of 1,416,000,000 new ordinary shares of HK$0.01 each in the capital of the Company were allotted and issued for net cash proceeds of HK$504,136,000. With such increase in the Company's issued share capital and share premium account resulting from the placing of new shares for cash, an aggregate amount of HK$504,136,000 was then transferred from special capital reserve to general reserve (a distributable reserve) of the Company in prior years pursuant to the provisos of the undertaking given by the Company in connection with the 2006 Capital Reduction as stated above.

As a result of the rights issue during the year ended 31 July 2012 with net cash proceeds of approximately HK$513,640,000, the Company's issued share capital and share premium account was further increased by an aggregate amount of approximately HK$513,640,000. The entire remaining balance of the special capital reserve of approximately HK$126,264,000 was further transferred to the general reserve (a distributable reserve) of the Company during the year ended 31 July 2012 pursuant to the provisos of the undertaking given by the Company in connection with the 2006 Capital Reduction as stated above.

During the year ended 31 July 2013, the Company recognised a dividend income from Fortune Sign of HK$16,300,000. Therefore, the Company transferred HK$16,300,000 (i) from retained profits to special capital reserve and (ii) from special capital reserve to general reserve, pursuant to the provisos of the undertaking given by the Company in connection with the 2006 Capital Reduction as stated above.

As a result of the above transfer between the reserves, the outstanding balance of the general reserve of the Company as at 31 July 2016 was approximately HK$646,700,000 (2015: HK$646,700,000). There was no remaining balance in the special capital reserve as at 31 July 2016 and 31 July 2015.

30. Share Option Schemes

2006 Share Option Scheme

On 22 December 2006, the Company adopted a share option scheme (the "**2006 Share Option Scheme**") for the purpose of providing incentives or rewards to eligible participants for their contribution or would-be contribution to the Group, to enable the Group to recruit and retain high-calibre employees and to attract human resources that are valuable to the Group. Eligible participants of the 2006 Share Option Scheme include the directors (including executive, non-executive and independent non-executive directors), employees of the Group, agents or consultants of the Group, and employees of the shareholder or any member of the Group or any holder of any securities issued by any member of the Group. The 2006 Share Option Scheme became effective on 29 December 2006. Unless otherwise terminated or amended, the 2006 Share Option Scheme would remain in force for 10 years from 29 December 2006. The 2006 Share Option Scheme was terminated upon the adoption of the 2015 Share Option Scheme (as defined below) on 11 December 2015.

30. Share Option Schemes (continued)

2006 Share Option Scheme (continued)

The maximum number of the Company's shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2006 Share Option Scheme and any other schemes of the Company must not exceed 30% of the Company's total number of shares in issue from time to time. The total number of shares which may be issued upon exercise of all share options to be granted under the 2006 Share Option Scheme and any other schemes of the Company shall not exceed 10% of the total number of shares of the Company in issue as at the date of adopting the 2006 Share Option Scheme unless the Company seeks the approval of its shareholders in general meeting to refresh the 10% limit under the 2006 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Company's total number of shares in issue. Any further grant of share options representing in aggregate over 1% of the total number of the Company's shares in issue must be separately approved by the shareholders in general meetings of the Company.

Each grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, shall be subject to approval by the independent non-executive directors of the Company. Any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue or having an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, in the 12-month period up to and including the date of such grant must be approved by shareholders in general meetings of the Company.

The offer of a grant of share options shall be accepted within 28 days from the date of offer and acceptance shall be made with a remittance in favour of the Company of HK$1 by way of consideration for the grant. The exercise period of the share options granted is determinable by the directors of the Company save that such period shall not be more than 10 years from the date of grant of the share options.

The exercise price of share options is determinable by the directors of the Company, but shall not be lower than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant.

Share options do not confer rights on the holders to dividends or to vote at general meetings of the Company.

30. Share Option Schemes (continued)

2015 Share Option Scheme

On 11 December 2015, the Company adopted a new share option scheme (the "**2015 Share Option Scheme**") and terminated the 2006 Share Option Scheme. Subsisting options granted prior to the termination will continue to be valid and exercisable in accordance with the terms of the previous scheme. The purpose of the 2015 Share Option Scheme is to recognise the contribution or future contribution of the eligible participants to the Group by granting share options to them as incentives or rewards and to attract, retain and motivate high-caliber eligible participants in line with the performance goals of the relevant companies. Eligible participants include but are not limited to the directors and any employee of the Group. The 2015 Share Option Scheme became effective on 23 December 2015. Unless otherwise cancelled or amended, the 2015 Share Option Scheme will remain in force for 10 years from 23 December 2015.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the 2015 Share Option Scheme (i) shall not exceed 10% of the shares of the Company in issue at the date of adopting the 2015 Share Option Scheme; (ii) shall not exceed 30% of the shares of the Company in issue from time to time; and (iii) to each eligible participant and 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 the limits set out in (i) and (iii) is subject to the approval of shareholders of the Company and the shareholders of LSG (so long as the Company is a subsidiary of LSG under the Listing Rules) in the respective general meetings.

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 of each of the Company and LSG (so long as the Company is a subsidiary of LSG under the Listing Rules). 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 closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the approval of shareholders of the Company and the shareholders of LSG (so long as the Company is a subsidiary of LSG under the Listing Rules) in the respective general meetings.

The offer of a grant of share options may be accepted within 30 days from the date of grant, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such period shall not be longer than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors of the Company, which shall be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (ii) the average closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange for the five trading days immediately preceding the date of grant.

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

30. Share Option Schemes (continued)

Details of the movements of the Company's share options outstanding under the 2006 Share Option Scheme and the 2015 Share Option Scheme during the years are as follows:

	2016		2015	
	Number of underlying shares comprised in share options	**Weighted average exercise price per share* HK$**	Number of underlying shares comprised in share options	Weighted average exercise price per share* HK$
Outstanding at beginning of year	**713,823,903**	**0.269**	702,823,903	0.271
Granted during the year	**15,000,000**	**0.094**	11,000,000	0.174
Cancelled during the year	**(3,000,000)**	**0.094**	—	—
Adjustment during the year (Note)	**28,552,954**	**—**	—	—
Outstanding at end of year	**754,376,857**	**0.256**	713,823,903	0.269

Note: On 17 February 2016, the exercise price of and the number of shares entitled to be subscribed for under the outstanding share options have been adjusted due to rights issue of the Company.

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other relevant changes in the Company's share capital.

The exercise price of the Company's share options granted on 22 January 2016 was HK$0.094 per share. The closing price of the Company's shares immediately before 22 January 2016 was HK$0.091.

The exercise price of the Company's share options granted on 21 January 2015 was HK$0.174 per share. The closing price of the Company's shares immediately before 21 January 2015 was HK$0.171.

The fair value of the share options granted during the year was approximately HK$461,000 (2015: HK$528,000), of which the Group recognised the entire amount as an expense during the year.

30. SHARE OPTION SCHEMES (CONTINUED)

The fair value of equity-settled share options granted during the year was estimated as at the date of acceptance of the share options using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016	2015
Dividend yield (%)	**1.7241**	1.3021
Expected volatility (%)	**51.1150**	53.6130
Historical volatility (%)	**51.1150**	53.6130
Risk-free interest rate (%)	**1.4675**	1.4172
Expected life of options (years)	**10**	10
Closing share price (HK$ per share)	**0.1060**	0.1720

The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

Other than the movements of the share options as detailed above, no other options were granted, exercised, cancelled or lapsed in accordance with the terms of the 2006 Share Option Scheme and the 2015 Share Option Scheme.

As at 31 July 2016 and the date of approval of these financial statements, a total of 754,376,857 underlying shares comprised in share options were outstanding, of which 742,376,857 underlying shares relate to share options granted under the 2006 Share Option Scheme and 12,000,000 underlying shares relate to share options granted under the 2015 Share Option Scheme, and represented approximately 2.46% and 0.04% of the Company's shares in issue, respectively, as at the respective dates.

31. Partly-Owned Subsidiaries With Material Non-Controlling Interests

Summarised consolidated financial information of Porchester Assets Limited ("**Porchester**") and its subsidiaries that has material non-controlling interests before intergroup eliminations is set out below:

	31 July 2016 HK$'000	31 July 2015 HK$'000
Current assets	**345,692**	364,060
Non-current assets	**260,491**	266,435
Total assets	**606,183**	630,495
Current liabilities	**(58,613)**	(72,624)
Non-current liabilities	**(32,790)**	(28,813)
Total liabilities	**(91,403)**	(101,437)
Equity attributable to owners of Porchester	**280,594**	291,243
Non-controlling interests	**234,186**	237,815
Total equity	**514,780**	529,058

	Year ended 31 July 2016 HK$'000	Year ended 31 July 2015 HK$'000
Turnover	**385,903**	380,775
Cost of sales and operating expenses	**(314,440)**	(312,674)
Other revenue	**1,513**	729
Tax	**(2,533)**	(16,551)
Profit and total comprehensive income for the year	**70,443**	52,279
Profit and total comprehensive income attributable to the non-controlling interests of Porchester	**34,591**	25,952
Dividends paid to the non-controlling interests of Porchester	**38,220**	41,468

32. Capital Commitments

The Group had the following commitments not provided for in the financial statements at the end of the reporting period:

	2016 **HK$'000**	2015 HK$'000
Contracted, but not provided for		
Purchase of items of property, plant and equipment	**7,550**	27,974
Development and operation of a hotel project	**2,124,016**	375,123
Additions to investment properties	**43,739**	7,698
	2,175,305	410,795

In addition, the Group's share of a joint venture's own capital commitments, in respect of future development expenditure of its investment properties, is as follows:

	2016 **HK$'000**	2015 HK$'000
Contracted, but not provided for	**—**	13,926

33. Contingent Liabilities

Save as disclosed elsewhere in the financial statements, the Group also had the following contingent liabilities at the end of the reporting period:

(a) Contingent liabilities not provided for in the financial statements:

	2016 **HK$'000**	2015 HK$'000
Guarantees given to banks in connection with facilities granted to and utilised by a joint venture	**897,000**	703,000

33. Contingent Liabilities (continued)

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

The indemnities given by the Company do not cover (i) new properties acquired by Lai Fung subsequent to the listing of the shares of Lai Fung on the Stock Exchange (the "**Listing**"); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung's prospectus dated 18 November 1997.

After taking into account the Property Interests currently held by Lai Fung as at 31 July 2016 which are covered under the Lai Fung Tax Indemnity Deed and the prevailing tax rates and legislation governing PRC income tax and LAT, the total amount of tax indemnity given by the Company is estimated to be approximately HK$1,350,000,000 (2015: HK$1,350,000,000).

After taking into account the plans and the status of the Property Interests held by Lai Fung as at 31 July 2016 and 31 July 2015 which are covered under the Lai Fung Tax Indemnity Deed and the prevailing tax rates and legislation governing PRC income tax and LAT, the Group recorded an aggregate provision for tax indemnity of approximately HK$729,387,000 as at the end of the reporting period (2015: HK$729,387,000).

34. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms mainly ranging from one to five years. Certain leases in United Kingdom are negotiated for terms up to twenty-five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions. Certain leases include contingent rentals calculated with reference to the turnover of the tenants.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**511,685**	487,702
In the second to fifth years, inclusive	**563,432**	617,136
After five years	**121,436**	147,988
	1,196,553	1,252,826

(b) As lessee

The Group leases certain properties under operating lease arrangements. One of these leases has an original lease term of twelve years with an option to terminate the leases upon expiry of six years, nine years or twelve years. Remaining operating lease arrangements are with leases negotiated for terms ranging from one to six years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**71,415**	40,870
In the second to fifth years, inclusive	**119,097**	69,980
After five years	**5,835**	—
	196,347	110,850

35. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2016			2015			
	Loans and receivables HK$'000	**Available-for-sale financial assets HK$'000**	**Total HK$'000**	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	**—**	**1,382,026**	**1,382,026**	—	—	1,215,485	1,215,485
Long term loan and other receivables	**141,961**	**—**	**141,961**	—	121,925	—	121,925
Trade debtors and other receivables	**100,876**	**—**	**100,876**	—	61,218	—	61,218
Equity investments at fair value through profit or loss	**—**	**—**	**—**	5,574	—	—	5,574
Pledged bank balances and time deposits	**216,241**	**—**	**216,241**	—	185,467	—	185,467
Cash and cash equivalents	**2,354,682**	**—**	**2,354,682**	—	1,068,038	—	1,068,038
	2,813,760	**1,382,026**	**4,195,786**	5,574	1,436,648	1,215,485	2,657,707

Financial liabilities

	2016 Financial liabilities at amortised cost HK$'000	2015 Financial liabilities at amortised cost HK$'000
Trade creditors, other payables and accruals	**307,451**	207,238
Bank borrowings	**5,402,429**	4,283,202
Guaranteed notes	**2,709,227**	2,703,324
	8,419,107	7,193,764

36. Fair Value Hierarchy of Financial Instruments

Financial instruments for which fair value is disclosed

Except for the guaranteed notes with a fair value in aggregate of approximately HK$2,820,200,000 (2015: HK$2,747,300,000) as detailed in note 27, the directors consider the carrying amounts of all other financial assets and financial liabilities measured at amortised cost approximated to their fair values as at the end of the reporting period.

Financial instruments measured at fair value

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 July 2016				
Available-for-sale financial assets, at fair value (note 19)	**—**	**164,081**	**1,204,693**	**1,368,774**
As at 31 July 2015				
Available-for-sale financial assets, at fair value (note 19)	—	151,215	1,051,018	1,202,233
Equity investments at fair value through profit or loss	5,574	—	—	5,574
	5,574	151,215	1,051,018	1,207,807

The movements in fair value measurements in Level 3 during the year are as follows:

	2016 HK$'000	2015 HK$'000
Available-for-sale financial assets, at fair value		
At beginning of year	**1,051,018**	1,115,780
Total gains/(losses) recognised in other comprehensive income	**153,675**	(64,762)
At end of year	**1,204,693**	1,051,018

37. Financial Risk Management Objectives and Policies

The principal financial assets held by the Group comprise available-for-sale financial assets, pledged bank balances and time deposits, and cash and cash equivalents. The management would, based on the Group's projected cash flow requirements, determine the types and levels of these financial instruments with a view to maintaining appropriate level of funding for the Group's operations and to enhancing the returns generated from these financial instruments. The Group's principal financial liabilities comprise bank borrowings and guaranteed notes. The Group will procure various types and levels of such financial liabilities in order to maintain sufficient funding for the Group's daily operations and to cope with expenditures incurred for various properties under development for sale or investment projects. In addition, the Group has various other financial assets and liabilities such as long term loan receivables, debtors and creditors which arise directly from its daily operations.

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

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument fluctuates because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's pledged bank balances and time deposits, cash and cash equivalents and bank borrowings with a floating interest rate.

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant and before any impact on tax, of the Group's profit or loss (through the impact on variable-rate mortgage loan receivables, pledged bank balances and time deposits, cash and cash equivalents and bank borrowings) and the Group's equity.

	Increase in interest rate (in percentage)	**Decrease in profit and equity** HK$'000
2016	**0.5**	**14,095**
2015	0.5	15,070

37. Financial Risk Management Objectives and Policies (continued)

(ii) Foreign currency risk

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

The Group's major assets and liabilities and transactions are principally denominated in HK$ or US$. As HK$ is pegged against US$, the Group does not expect any significant movements in the exchange rate in the foreseeable future.

The Group had made investments in the United Kingdom with the assets and liabilities denominated in Pounds Sterling. The investments were partly financed by bank borrowings denominated in Pounds Sterling in order to minimise the net foreign exchange exposure. Other than the abovementioned, the remaining monetary assets and liabilities of the Group were denominated in RMB and VND which were insignificant as compared with the Group's total assets and liabilities. No hedging instruments were employed to hedge for the foreign exchange exposure.

(iii) Credit risk

The Group maintains various credit policies for different business operations as described in note 24. In addition, trade debtor balances are closely monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the financial assets, which comprise trade debtors and other receivables, pledged bank balances and time deposits, cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(iv) Liquidity risk

The Group's objective is to ensure adequate funds are available to meet commitments associated with its capital expenditure and financial liabilities. Cash flows are closely monitored on an ongoing basis.

37. Financial Risk Management Objectives and Policies (continued)

(iv) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2016			
	Less than 3 months or on demand HK$'000	**3 to 12 months HK$'000**	**1 to 5 years HK$'000**	**Total HK$'000**
Trade creditors, other payables and accruals	**307,451**	**—**	**—**	**307,451**
Bank borrowings	**62,737**	**187,238**	**5,639,427**	**5,889,402**
Guaranteed notes	**—**	**149,183**	**2,792,686**	**2,941,869**
Bank guarantee to a joint venture (note 33(a))	**897,000**	**—**	**—**	**897,000**
	1,267,188	**336,421**	**8,432,113**	**10,035,722**

	2015			
	Less than 3 months or on demand HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade creditors, other payables and accruals	207,238	—	—	207,238
Bank borrowings	956,261	151,157	3,475,286	4,582,704
Guaranteed notes	—	154,672	2,945,559	3,100,231
Bank guarantee to a joint venture (note 33(a))	703,000	—	—	703,000
	1,866,499	305,829	6,420,845	8,593,173

(v) Capital management

The Group manages its capital structure to ensure that entities in the Group will be able to continue to operate as a going concern while maximising the return to stakeholders through the setting up and maintenance of an optimal debt and equity capital structure. The Group's overall strategy remains unchanged from that of the prior year.

The capital structure of the Group mainly consists of bank borrowings, guaranteed notes and equity attributable to owners of the Company, comprising share capital and reserves.

The directors of the Company review the capital structure regularly. They will take into consideration the cost of capital and the risks associated with each class of capital prevailing in the market. Based on the recommendation of the directors, the Group will balance its overall capital structure through various types of equity fund raising exercises as well as maintenance of appropriate types and level of debt.

37. Financial Risk Management Objectives and Policies (continued)

(v) Capital management (continued)

The Group monitors capital using, inter-alia, a gearing ratio which is net debt divided by equity attributable to owners of the Company. Net debt includes bank borrowings and guaranteed notes, less pledged bank balances and time deposits, and cash and cash equivalents. The gearing ratio as at the end of the reporting period is as follows:

	2016 **HK$'000**	2015 HK$'000
Bank borrowings	**5,402,429**	4,283,202
Guaranteed notes	**2,709,227**	2,703,324
Less: Pledged bank balances and time deposits	**(216,241)**	(185,467)
Cash and cash equivalents	**(2,354,682)**	(1,068,038)
Net debt	**5,540,733**	5,733,021
Equity attributable to owners of the Company	**24,357,735**	22,662,543
Gearing ratio	**23%**	25%

38. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**8,796**	10,830
Investment properties	**8,108,500**	8,066,700
Interests in subsidiaries	**6,295,840**	5,997,146
Interests in associates	**6,134**	6,141
Interests in joint ventures	**393,522**	393,597
Available-for-sale financial assets	**55,200**	68,892
Pledged bank balances and time deposits	**148,525**	—
Deposits paid and other receivables	**6,888**	—
Total non-current assets	**15,023,405**	14,543,306
CURRENT ASSETS		
Equity investments at fair value through profit or loss	**—**	5,574
Debtors, deposits paid and other receivables	**40,026**	88,463
Pledged bank balances and time deposits	**—**	185,467
Cash and cash equivalents	**1,236,833**	263,766
Total current assets	**1,276,859**	543,270
CURRENT LIABILITIES		
Creditors, deposits received and accruals	**74,232**	71,235
Tax payable	**95,286**	86,753
Bank borrowings	**98,580**	973,289
Total current liabilities	**268,098**	1,131,277
NET CURRENT ASSETS/(LIABILITIES)	**1,008,761**	(588,007)
TOTAL ASSETS LESS CURRENT LIABILITIES	**16,032,166**	13,955,299

38. Statement of Financial Position of the Company (continued)

	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES		
Bank borrowings	**2,161,743**	1,301,100
Deferred tax	**62,700**	60,315
Provision for tax indemnity	**729,387**	729,387
Long term rental deposits received	**52,397**	49,983
Total non-current liabilities	**3,006,227**	2,140,785
	13,025,939	11,814,514
EQUITY		
Share capital	**4,050,252**	3,135,561
Reserves (Note)	**8,975,687**	8,678,953
	13,025,939	11,814,514

Chew Fook Aun
Director

Lau Shu Yan, Julius
Director

38. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Investment revaluation reserve HK$'000	**Share option reserve** HK$'000	**Capital reduction reserve** HK$'000	**General reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 August 2014	13,723	58,826	4,692	646,700	7,011,404	7,735,345
Profit for the year	—	—	—	—	987,988	987,988
Other comprehensive income for the year:						
Change in fair values of available- for-sale financial assets	5,249	—	—	—	—	5,249
Total comprehensive income for the year	5,249	—	—	—	987,988	993,237
Final 2014 dividend declared	—	—	—	—	(50,157)	(50,157)
Recognition of share-based payments	—	528	—	—	—	528
At 31 July 2015 and 1 August 2015	18,972	59,354	4,692	646,700	7,949,235	8,678,953
Profit for the year	—	—	—	—	360,201	360,201
Other comprehensive expense for the year:						
Change in fair values of available-for-sale financial assets	(13,692)	—	—	—	—	(13,692)
Total comprehensive (expense)/ income for the year	(13,692)	—	—	—	360,201	346,509
Final 2015 dividend declared (note 12)	—	—	—	—	(50,236)	(50,236)
Recognition of share-based payments	—	461	—	—	—	461
At 31 July 2016	5,280	59,815	4,692	646,700	8,259,200	8,975,687

39. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 July 2016 were as follows:

Name	Place of incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Bushell Limited	Hong Kong	HK$2	Ordinary	—	100.00	Property development and sales
Capital Court Limited	Hong Kong	HK$1	Ordinary	—	100.00	Hotel development and operation
Chains Caravelle Hotel Joint Venture Company Limited ("**CCHJV**")	Vietnam	US$23,175,577	*	—	26.01**	Hotel operation
Ever Dragon Properties Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Frontier Dragon Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Furama Hotel Enterprises Limited	Hong Kong	HK$102,880,454	Ordinary	—	100.00	Investment holding
Furama Hotels and Resorts International Limited	British Virgin Islands/ Hong Kong	US$1,000,000	Ordinary	—	100.00	Provision of management services
Fusion Century Limited****	Hong Kong	HK$100	Ordinary	—	50.28	Restaurant operation
Gilroy Company Limited	Hong Kong	HK$10,000	Ordinary	100.00	—	Property investment
Glynhill Hotels and Resorts (Vietnam) Pte Ltd	Singapore/ Vietnam	S$2	Ordinary	—	100.00	Provision of management and consultancy services to hotel owners

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Glynhill Investments (Vietnam) Pte Ltd ("**GIV**")	Singapore	S$2	Ordinary	—	51.00**	Investment holding
Goldmay Development Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property development and sales
Greatful Limited***	Hong Kong	HK$100	Ordinary	—	67.04	Central kitchen and restaurant operation
Intercontinental Development and Services Limited	Hong Kong	HK$300,000	Ordinary	—	100.00	Property investment
King Faithful Limited***	Hong Kong	HK$100	Ordinary	—	61.68	Restaurant operation
Kolot Property Services Limited	Hong Kong	HK$780,002	Ordinary	100.00	—	Property management
Lai Sun F&B Holding Company Limited ("**LSF&B**")***	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	67.04	Investment holding
Lai Sun F&B Management Limited***	Hong Kong	HK$1	Ordinary	—	67.04	Provision of management and consultancy services to restaurants
Lai Sun International Finance (2012) Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Treasury operation
Lai Sun Real Estate Agency Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property management and real estate agency

39. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Mazy Charm Limited***	Hong Kong	HK$4,200	Ordinary	—	61.68	Restaurant operation
Mazy Lamp Limited***	Hong Kong	HK$3,300	Ordinary	—	49.61	Restaurant operation
Megabull Limited****	British Virgin Islands/ Hong Kong	US$1	Ordinary	—	100.00	Property investment
Milirich Investment Limited	Hong Kong	HK$2	Ordinary	100.00	—	Property development
Modern Charm Limited***	Hong Kong	HK$10,000	Ordinary	—	67.04	Restaurant operation
Oriental Style Limited	Hong Kong	HK$1	Ordinary	—	100.00	Property development and sales
Peakflow Profits Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Porchester Assets Limited	British Virgin Islands/ Hong Kong	US$100	Ordinary	—	51.00**	Investment holding
Prompt Result Limited****	British Virgin Islands/ Hong Kong	US$100	Ordinary	—	57.65	Restaurant operation
Really Star Limited***	Hong Kong	HK$3,100	Ordinary	—	62.71	Restaurant operation
Rife World Limited	Hong Kong	HK$1	Ordinary	—	100.00	Provision of finance
Rolling Star Limited	Hong Kong	HK$1	Ordinary	—	100.00	Provision of finance

39. Particulars of Principal Subsidiaries (continued)

Name	Place of incorporation or registration and business	Issued ordinary/ registered share capital	Class of shares held	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Royal Team Limited***	Hong Kong	HK$10,000	Ordinary	—	59.00	Restaurant operation
Silver Fusion Limited****	Hong Kong	HK$500,000	Ordinary	—	67.04	Restaurant operation
Skyway Century Limited****	Hong Kong	HK$1,000,000	Ordinary	—	67.04	Restaurant operation
Speedy Result Limited	British Virgin Islands/ United Kingdom	US$1	Ordinary	—	100.00	Property investment
Top Winsome Limited***	Hong Kong	HK$300,000	Ordinary	—	56.31	Restaurant operation
Transformation International Limited	British Virgin Islands/ Hong Kong	US$1	Ordinary	100.00	—	Investment holding
Transtrend Holdings Limited	Hong Kong	HK$20	Ordinary	—	100.00	Investment holding
Winstead Limited	Hong Kong	HK$1	Ordinary	—	100.00	Property development
World Palace Limited****	Hong Kong	HK$1,300	Ordinary	—	57.25	Restaurant operation

* This subsidiary has registered capital rather than issued share capital.

** The Group owns a 51% (2015: 51%) equity interest in Porchester, which in turn, through GIV, a wholly-owned subsidiary of Porchester, owns a 51% (2015: 51%) interest in CCHJV. By virtue of the 51% (2015: 51%) equity interest in CCHJV held by the Group through the 51%-owned Porchester, an effective equity interest of 26.01% (2015: 26.01%) in CCHJV was held by the Group.

39. Particulars of Principal Subsidiaries (continued)

*** On 30 June 2016, the Group acquired additional equity interests in the following subsidiaries (the "**Acquisition of Additional Interests**"):

Subsidiaries	Equity interest attributable to LSF&B prior to the Acquisition of Additional Interests	Acquired interests	Equity interest attributable to LSF&B upon the Acquisition of Additional Interests
Greatful Limited	55.00%	45.00%	100.00%
King Faithful Limited	62.00%	30.00%	92.00%
Mazy Charm Limited	51.00%	41.00%	92.00%
Mazy Lamp Limited	53.00%	21.00%	74.00%
Modern Charm Limited	70.00%	30.00%	100.00%
Really Star Limited	56.77%	36.77%	93.54%
Royal Team Limited	52.00%	36.00%	88.00%
Top Winsome Limited	54.00%	30.00%	84.00%

The consideration was satisfied by the allotment and issuance of 75,242,791 new shares at HK$1 each of LSF&B, at a fair value of approximately HK$68,471,000 (being 75,242,791 shares valued at HK$0.91 each).

Pursuant to the above allotment and issuance of new shares of LSF&B and as set out in note 42, LSF&B became a 66.71%-owned subsidiary of the Company. On the same day, LSF&B completed a rights issue of 140,000,000 shares for HK$1 each with total proceeds of HK$140 million (the "**LSF&B Rights Issue**"). Following the completion of the LSF&B Rights Issue, the Company's interest in LSF&B was increased from 66.71% to 67.04%.

**** These subsidiaries were newly incorporated/acquired during the year.

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.

Shares of certain subsidiaries held by the Group were also pledged to banks to secure banking facilities granted to the Group (note 26).

40. Particulars of Principal Associates

Particulars of the Group's principal associates as at 31 July 2016 were as follows:

Name	Place of incorporation or registration and business	Class of shares held	Percentage of ownership interest attributable to the Group	Notes
eSun	Bermuda/ Hong Kong	Ordinary	41.92	a
Lai Fung	Cayman Islands/ PRC	Ordinary	21.41	b
Media Asia Group Holdings Limited ("**Media Asia**")	Incorporated in the Cayman Islands and continued in Bermuda/ Hong Kong	Ordinary	27.77	c

Notes:

a. eSun is listed on the Main Board of the Stock Exchange.

eSun and its subsidiaries are principally engaged in property development for sale and property investment for rental purposes; development and operation of and investment in cultural, leisure, entertainment and related facilities; development and operation of and investment in media, entertainment, music production and distribution; investment in and production and distribution of television programmes, films and video format products; cinema operation; sale of cosmetic products; and investment holding.

b. Lai Fung is listed on the Main Board of the Stock Exchange. As at 31 July 2016, eSun owns a 51.08% (2015: 51.30%) interest in Lai Fung.

Lai Fung and its subsidiaries are principally engaged in property development for sale, property investment for rental purposes, and development and operation of and investment in cultural, leisure, entertainment and related facilities.

c. Media Asia is listed on the Growth Enterprise Market of the Stock Exchange. As at 31 July 2016, eSun owns a 66.25% (2015: 60.41%) interest in Media Asia.

Media Asia and its subsidiaries are principally engaged in film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; and provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

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

41. PARTICULARS OF PRINCIPAL JOINT VENTURES

Particulars of the Group's principal joint ventures as at 31 July 2016 were as follows:

Name	Place of incorporation or registration and business	Class of shares held	Percentage of ownership interest attributable to the Group	Principal activities
Best Value International Limited	Hong Kong	Ordinary	50.00	Property development
Diamond Path Limited	British Virgin Islands/ Hong Kong	Ordinary	50.00	Investment holding
Diamond String Limited	Hong Kong	Ordinary	50.00	Property investment
Strongly Limited	Hong Kong	Ordinary	50.00	Property development

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

42. Acquisition of Subsidiaries

On 30 June 2016, the Group acquired additional equity interests in three associates (the "**Acquisition**"), namely Fusion Century Limited, Prompt Result Limited and World Palace Limited (collectively the "**Acquired Subsidiaries**") as follows:

Entities	Equity interest attributable to LSF&B prior to the Acquisition	Interest acquired	Equity interest attributable to LSF&B upon the Acquisition	Principal activities
Fusion Century Limited	45.00%	30.00%	75.00%	Restaurant operation
Prompt Result Limited	30.00%	56.00%	86.00%	Restaurant operation
World Palace Limited	30.00%	55.39%	85.39%	Restaurant operation

The consideration was satisfied by the allotment and issuance of 22,834,205 new shares of a subsidiary, LSF&B, at a fair value of approximately HK$20,779,000 (being 22,834,205 shares valued at HK$0.91 each).

Goodwill of approximately HK$5,161,000 and gain on bargain purchase of HK$3,128,000 were recognised upon the completion of the Acquisition. The Group considers that the Acquired Subsidiaries would add immediate scale to its food and beverage operation in Hong Kong. None of the goodwill recognised is expected to be deductible for income tax purposes.

42. Acquisition of Subsidiaries (continued)

The fair values of identifiable assets and liabilities of the Acquired Subsidiaries as at the date of acquisition were as follows:

	Notes	HK$'000
Property, plant and equipment (note 14)		25,046
Interest in an associate		181
Deferred tax (note 28)		62
Inventories		9,971
Debtors, deposits paid and other receivables		10,069
Cash and cash equivalents		33,248
Creditors, deposits received and accruals		(10,348)
Tax payable		(561)
Non-controlling interests of the Acquired Subsidiaries	(i)	(3,630)
		64,038
Non-controlling interests	(i), (ii)	(14,133)
Total identifiable net assets at fair value		49,905
Goodwill on acquisition (note 43)	(iii)	5,161
Gain on bargain purchase recognised on the consolidated income statement (note 6)		(3,128)
		51,938
Satisfied by:		
LSF&B consideration shares		20,779
Fair value of equity interests of the Acquired Subsidiaries prior to the Acquisition		31,159
		51,938

Notes:

(i) The non-controlling interests acquired and arising from the Acquisition amounted to HK$17,763,000.

(ii) The non-controlling interests in the Acquired Subsidiaries recognised at the date of the acquisition were measured by reference to the respective proportionate shares of recognised amounts of net assets of the relevant Acquired Subsidiaries and amounted to HK$14,133,000.

(iii) The goodwill arising on the Acquisition is measured as the excess of the sum of the consideration transferred and the amount of non-controlling interests, over the net amounts of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

42. Acquisition of Subsidiaries (continued)

The cash and cash equivalents acquired amounted to approximately HK$33,248,000.

The Group incurred transaction costs of approximately HK$140,000 for the Acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

Since the Acquisition, the Acquired Subsidiaries contributed approximately HK$9,279,000 to the Group's revenue and loss of approximately HK$179,000 to the Group's consolidated profit for the year ended 31 July 2016.

Had the Acquisition taken place at the beginning of the year, the revenue and the profit for the year of the Group would have been approximately HK$1,980,707,000 and approximately HK$1,182,047,000, respectively.

43. Goodwill

	HK$'000
Cost and net carrying amount:	
At 1 August 2014, 31 July 2015 and 1 August 2015	—
Acquisition of subsidiaries	5,161
At 31 July 2016	5,161

Impairment testing of goodwill

Goodwill acquired through a business combination during the year ended 31 July 2016 had been allocated to cash-generating units (the "**CGU**") from the Acquisition, which are components of the restaurant operation segment, for impairment testing.

The acquired subsidiaries are a group of CGU which generate cash inflows that are largely independent of the cash inflows from other assets.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a three-year period with a growth rate approved by senior management, which is based on the management's expectation for market development. The discount rate applied to the cash flow projections is 15%.

Assumptions were used in the value-in-use calculation of the CGU for the year ended 31 July 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted profit - The basis used to determine the value assigned to the budgeted profit is the average profit achieved in the markets, adjusted for expected efficiency improvement, and expected market development.

Discount rate - The discount rate used is before tax and reflects specific risks relating to the relevant unit.

44. Event after the Reporting Period

On 30 September 2016, Action Charm Limited ("**ACL**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement, pursuant to which the vendor conditionally agreed to sell and ACL conditionally agreed to purchase 49.92% interest in Camper & Nicholsons International SA ("**CNI**") for an aggregate consideration of approximately EUR13,000,000 (equivalent to approximately HK$113,804,000). Upon completion on 3 October 2016, ACL subscribed a further one new share of CNI which increased its shareholding interest to 49.96%.

CNI is principally engaged in the business of brokerage, charter, marketing, management and construction of yachts.

Due to the timing of the transaction, the Group is still assessing the financial impact on the Group. Accordingly, certain disclosures in relation to the acquisition have not been presented.

Further details are set out in the Company's announcement dated 30 September 2016.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 19 October 2016.

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