



LAI SUN DEVELOPMENT



Lai Sun Development Company Limited

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Interim Report  
2011/2012

Stock Code: 488



Cover photos:

- ① 3 Connaught Road Central, Hong Kong
- ② 335-339 Tai Hang Road, Hong Kong

# Corporate Information

## Place of Incorporation

Hong Kong

## Board of Directors

Executive Directors

Lam Kin Ngok, Peter (*Chairman*)

Lau Shu Yan, Julius (*Chief Executive Officer*)

Tam Kin Man, Kraven

Lui Siu Tsuen, Richard

Cheung Sum, Sam

Non-executive Directors

Lam Kin Ming

U Po Chu

Wan Yee Hwa, Edward

Independent Non-executive Directors

Lam Bing Kwan

Leung Shu Yin, William

Ip Shu Kwan, Stephen, *GBS, JP*

## Audit Committee

Leung Shu Yin, William (*chairman*)

Lam Bing Kwan

Wan Yee Hwa, Edward

## Remuneration Committee

Leung Shu Yin, William (*chairman*)

Lam Bing Kwan

Wan Yee Hwa, Edward

Cheung Sum, Sam

## Company Secretary

Kwok Siu Man

## Authorised Representatives

Lam Kin Ngok, Peter

Lau Shu Yan, Julius

## Registered Office

11th Floor

Lai Sun Commercial Centre

680 Cheung Sha Wan Road

Kowloon, Hong Kong

Tel: (852) 2741 0391

Fax: (852) 2785 2775

## Share Registrars and Transfer Office

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

## Independent Auditors

Ernst & Young

Certified Public Accountants

## Shares Information

Place of Listing

The Main Board of The Stock Exchange  
of Hong Kong Limited

Stock Code

488

Board Lot

1,000 Shares

## Website

[www.laisun.com](http://www.laisun.com)

## Investor Relations

E-mail: [ir@laisun.com](mailto:ir@laisun.com)

# Chairman's Statement

## Overview of Interim Results

For the six months ended 31 January 2012, Lai Sun Development Company Limited (the “**Company**”) and its subsidiaries (the “**Group**”) recorded a turnover of HK\$452.0 million (2011: HK\$669.4 million) and a gross profit of HK\$277.8 million (2011: HK\$316.0 million), representing a decrease of approximately 32.5% and 12.1% respectively over the corresponding period last year. Net profit attributable to shareholders was approximately HK\$302.4 million (2011: HK\$940.8 million), representing a decrease of approximately 67.9%. Accordingly, basic earnings per share declined to HK1.82 cents (2011: HK6.14 cents).

Shareholders' equity as at 31 January 2012 amounted to HK\$12,914.8 million, up from HK\$11,959.0 million as at 31 July 2011. Net asset value per share attributable to owners of the Company after adjusting for the rights issue which was completed in December 2011, decreased to HK\$0.644 from HK\$0.844 as at 31 July 2011.

## Interim Ordinary Dividend

As at 31 January 2012, the Company did not have any reserves available for distribution in accordance with the provisions of Section 79B of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The board of directors (the “**Board**”) of the Company has resolved not to declare the payment of an interim ordinary dividend for the financial year ending 31 July 2012. No interim ordinary dividend was declared in respect of the last corresponding period.

## Market Outlook and Business Review

Despite the lingering fear of global economic recession, financial market volatility and policy headwinds casting a shadow on the property market in Hong Kong, the property market has demonstrated resilience and has shown signs of a rebound with prices stabilising in recent weeks. As a favoured investment destination for mainland Chinese investors, activities in the primary and secondary markets have recovered to a certain extent given limited supply of new stock and low interest rates.

The Group has a healthy balance sheet with reasonable leverage given improvements in the Group's operations in the past few years. Under the current market conditions, the Group will continue to look for suitable high-yielding investment opportunities and replenish its landbank in both Hong Kong and overseas.

## Investment Properties

Rent levels for offices and commercial properties in prime locations in Hong Kong have remained robust. The operating conditions for most retail, consumption and commercial sectors in Hong Kong have performed favorably given the strong retail spending by visitors from mainland China. The demand for high quality commercial properties in traditional commercial districts is strong given the lack of new supply coming on stream. Improved local consumption expenditure and strong retail spending by the visitors from mainland China are expected to provide further impetus to the retail property market.

The Group will continue to upgrade its commercial investment properties as well as tenant mix so that they can continue to maintain high occupancy rates and strong rental cashflow.

## Chairman's Statement *(continued)*

### Development Properties

The continued economic growth under a low interest rate environment, ample liquid funds and a tight market supply of new residential units have helped sustain momentum in the market despite recent consolidation.

The Group currently owns a number of residential projects under development in Hong Kong. The Group has adopted a prudent strategy with a view to delivering long-term value to shareholders as demonstrated by the Group's ability to capture the strong growth in the Hong Kong residential property market by achieving satisfactory sales performances for The Oakhill and Emerald 28 projects that it owns 50% and 100% respectively. We have started the preparation work for the pre-sale of the residential development project, Ocean One, in Yau Tong, Kowloon.

### New Investments

The Group completed the acquisition of a 50% interest in a project at Observatory Road, Kowloon, Hong Kong with the buildings previously erected there known as Nos. 2, 4, 6, 8, 10 and 12, Observatory Road, Kowloon, Hong Kong in November 2011.

The Group is now in discussions with the joint venture partner as regards the overall re-development plan including the designs, features and quality of the new building. The site is being planned to be redeveloped into a multi-storey commercial building with a total gross floor area ("**GFA**") of approximately 165,000 square feet. Subject to the finalisation of the re-development plan with the joint venture partner, the total development cost was estimated to be approximately HK\$2.3 billion including an estimated land value of approximately HK\$1.7 billion. The new building is expected to be completed in 2015.

With the Hong Kong Government committed to increasing land supply in the long run as a measure to stabilise local property prices, the Group will continue to monitor the prices achieved at Government land auctions and tenders in Hong Kong and will participate in these exercises if and when suitable investment opportunities arise.

### Stable Financial Position

The Group adopts a prudent financial strategy aimed at optimising its financial structure and strengthening working capital. The Group maintains stable and sufficient cash flows to capitalise on investment opportunities when appropriate. During the period, the Group completed a rights issue and raised approximately HK\$513.6 million after expenses to further strengthen its financial position. As at 31 January 2012, the Group's total cash and bank deposits were approximately HK\$1,194.5 million; committed but undrawn construction loan facilities were approximately HK\$342.2 million.

### Shareholders and Staff

On behalf of the Board, I would like to extend my heartfelt gratitude to the full trust and enormous support of our shareholders, customers and partners as well as the unrelenting commitment and effort of all our staff members, which set the Company on course for long-term success.

**Lam Kin Ngok, Peter**  
*Chairman*

Hong Kong, 29 March 2012

# Condensed Consolidated Income Statement

For the six months ended 31 January 2012

	Notes	Six months ended 31 January	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
TURNOVER	3	451,989	669,439
Cost of sales		(174,216)	(353,473)
Gross profit		277,773	315,966
Other revenue and gain		11,400	39,938
Selling and marketing expenses		(6,119)	(24,597)
Administrative expenses		(154,435)	(147,677)
Other operating expenses, net		(21,106)	(11,691)
Fair value gain on investment properties		60,624	587,635
Reversal of provision/(provision) for tax indemnity	12(c)	1,060	(47,185)
PROFIT FROM OPERATING ACTIVITIES	4	169,197	712,389
Finance costs	5	(23,035)	(23,866)
Share of profits and losses of associates	8	116,288	391,588
Discount on acquisition of additional interest in an associate		88,695	—
PROFIT BEFORE TAX		351,145	1,080,111
Tax	6	(25,403)	(115,677)
PROFIT FOR THE PERIOD		325,742	964,434
Attributable to:			
Ordinary equity holders of the Company		302,384	940,835
Non-controlling interests		23,358	23,599
		325,742	964,434
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		(Adjusted)
Basic		HK1.82 cents	HK 6.14 cents
Diluted		N/A	N/A

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2012

	Six months ended 31 January	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>325,742</b>	964,434
<b>OTHER COMPREHENSIVE INCOME/(EXPENSES)</b>		
Changes in fair value of available-for-sale financial assets	<b>61,435</b>	168,487
Exchange realignments:		
Subsidiaries	<b>(2,889)</b>	233
Associates	<b>30,509</b>	33,757
Share of investment revaluation reserve of an associate	<b>(1,808)</b>	8,338
Share of an associate's release of reserves to the income statement upon disposal of its interest in an associate	—	(99,279)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>87,247</b>	111,536
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>412,989</b>	1,075,970
Attributable to:		
Ordinary equity holders of the Company	<b>389,620</b>	1,052,290
Non-controlling interests	<b>23,369</b>	23,680
	<b>412,989</b>	1,075,970

# Condensed Consolidated Statement of Financial Position

As at 31 January 2012

	Notes	31 January 2012 (Unaudited) HK\$'000	31 July 2011 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		356,051	356,226
Prepaid land lease payments		25,524	26,038
Investment properties		7,824,709	7,756,931
Properties under development for sale		1,183,870	1,098,195
Interests in associates	8	5,836,435	5,048,312
Available-for-sale financial assets		994,659	883,183
Pledged bank balances and time deposits		—	99,591
Deposit paid for acquisition of interest in an associate		—	90,000
<b>Total non-current assets</b>		<b>16,221,248</b>	15,358,476
<b>CURRENT ASSETS</b>			
Completed properties for sale		103,005	147,197
Equity investments at fair value through profit or loss		13,502	10,158
Inventories		5,534	5,878
Debtors and deposits paid	9(a)	138,145	124,827
Held-to-maturity debt investments		—	33,963
Pledged bank balances and time deposits		99,837	—
Cash and cash equivalents		1,194,468	1,002,805
<b>Total current assets</b>		<b>1,554,491</b>	1,324,828
<b>CURRENT LIABILITIES</b>			
Creditors, deposits received and accruals	9(b)	225,243	222,099
Tax payable		59,970	62,896
Bank borrowings		872,018	217,097
<b>Total current liabilities</b>		<b>1,157,231</b>	502,092
<b>NET CURRENT ASSETS</b>		<b>397,260</b>	822,736
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>16,618,508</b>	16,181,212
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings		(1,649,873)	(2,199,440)
Deferred tax		(1,170,389)	(1,160,297)
Provision for tax indemnity	12(c)	(517,510)	(518,570)
Long term rental deposits received		(56,988)	(55,930)
<b>Total non-current liabilities</b>		<b>(3,394,760)</b>	(3,934,237)
		<b>13,223,748</b>	12,246,975
<b>EQUITY</b>			
<b>Equity attributable to ordinary equity holders of the Company</b>			
Issued capital	10	200,629	141,620
Share premium account	10	7,429,332	6,974,701
Investment revaluation reserve		893,483	833,856
Share option reserve		1,211	1,092
Capital redemption reserve		1,200,000	1,200,000
General reserve	10	630,400	504,136
Other reserve		59,950	7,565
Special capital reserve	10	—	126,264
Exchange fluctuation reserve		139,988	112,379
Retained profits		2,359,812	2,057,428
		<b>12,914,805</b>	11,959,041
<b>Non-controlling interests</b>		<b>308,943</b>	287,934
		<b>13,223,748</b>	12,246,975

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 January 2012

	Attributable to ordinary equity holders of the Company												Total HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Investment revaluation reserve HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Other reserve HK\$'000	Special capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
At 31 July 2011 and 1 August 2011 (Audited)	141,620	6,974,701	833,856	1,092	1,200,000	504,136	7,565	126,264	112,379	2,057,428	11,959,041	287,934	12,246,975
Profit for the period	—	—	—	—	—	—	—	—	—	302,384	302,384	23,358	325,742
Other comprehensive income/(expenses) for the period:													
Change in fair value of available-for-sale financial assets	—	—	61,435	—	—	—	—	—	—	—	61,435	—	61,435
Exchange realignments	—	—	—	—	—	—	—	—	27,609	—	27,609	11	27,620
Share of investment revaluation reserve of an associate	—	—	(1,808)	—	—	—	—	—	—	—	(1,808)	—	(1,808)
Total comprehensive income for the period	—	—	59,627	—	—	—	—	—	27,609	302,384	389,620	23,369	412,989
Rights issue (Note 10)	59,009	472,068	—	—	—	—	—	—	—	—	531,077	—	531,077
Share issue expenses (Note 10)	—	(17,437)	—	—	—	—	—	—	—	—	(17,437)	—	(17,437)
Share of reserve movements of associates	—	—	—	119	—	—	52,385	—	—	—	52,504	—	52,504
Transfer of reserves (Note 10)	—	—	—	—	—	126,264	—	(126,264)	—	—	—	—	—
Capital contribution from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	1,900	1,900
Repayment to non-controlling interests of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(4,260)	(4,260)
<b>At 31 January 2012 (Unaudited)</b>	<b>200,629</b>	<b>7,429,332</b>	<b>893,483</b>	<b>1,211</b>	<b>1,200,000</b>	<b>630,400</b>	<b>59,950</b>	<b>—</b>	<b>139,988</b>	<b>2,359,812</b>	<b>12,914,805</b>	<b>308,943</b>	<b>13,223,748</b>
At 31 July 2010 and 1 August 2010 (Audited)	141,620	6,974,701	699,769	12,417	1,200,000	504,136	3,734	126,264	35,058	(292,009)	9,405,690	261,131	9,666,821
Profit for the period	—	—	—	—	—	—	—	—	—	940,835	940,835	23,599	964,434
Other comprehensive income/(expenses) for the period:													
Change in fair value of available-for-sale financial assets	—	—	168,487	—	—	—	—	—	—	—	168,487	—	168,487
Exchange realignments	—	—	—	—	—	—	—	—	33,909	—	33,909	81	33,990
Share of investment revaluation reserve of an associate	—	—	8,338	—	—	—	—	—	—	—	8,338	—	8,338
Share of an associate's release of reserve to the income statement upon disposal of its interest in an associate	—	—	(98,692)	—	—	—	—	—	(587)	—	(99,279)	—	(99,279)
Total comprehensive income for the period	—	—	78,133	—	—	—	—	—	33,322	940,835	1,052,290	23,680	1,075,970
Share of reserve movements of associates	—	—	—	(4,897)	—	—	1,228	—	(183)	6,308	2,456	—	2,456
Transfer of reserve upon lapse of share options	—	—	—	(6,572)	—	—	—	—	—	6,572	—	—	—
Dividend paid to a non-controlling interest of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	(15,288)	(15,288)
At 31 January 2011 (Unaudited)	141,620	6,974,701	777,902	948	1,200,000	504,136	4,962	126,264	68,197	661,706	10,460,436	269,523	10,729,959

# Condensed Consolidated Statement of Cash Flows

For the six months ended 31 January 2012

	<b>Six months ended 31 January</b>	
	<b>2012 (Unaudited) HK\$'000</b>	2011 (Unaudited) HK\$'000
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>120,812</b>	327,998
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(545,538)</b>	(16,418)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>619,278</b>	(185,593)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>194,552</b>	125,987
Cash and cash equivalents at beginning of period	<b>1,002,805</b>	1,124,778
Effect of foreign exchange rate changes, net	<b>(2,889)</b>	233
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,194,468</b>	1,250,998
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>388,485</b>	260,414
Non-pledged time deposits with original maturity of less than three months when acquired	<b>805,983</b>	990,584
	<b>1,194,468</b>	1,250,998

# Notes to Condensed Consolidated Interim Financial Statements

## 1. Basis of Preparation

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 January 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee.

## 2. Significant Accounting Policies

The significant accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group’s audited consolidated financial statements for the year ended 31 July 2011. The Group has adopted the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”; which also include HKASs and Interpretations) which are applicable to the Group and are effective in the current period. The adoption of these new and revised HKFRSs has had no material impact on the reported results or financial position of the Group.

### Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, which are applicable to the Group, that have been issued but are not yet effective, in these interim financial statements:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>3</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>3</sup>
HKAS 32 (Amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
HKFRS 7 Amendments	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>5</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HKFRS 10	Consolidated Financial Statements <sup>3</sup>
HKFRS 11	Joint Arrangements <sup>3</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>3</sup>
HKFRS 13	Fair Value Measurement <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2015

# Notes to Condensed Consolidated Interim Financial Statements *(continued)*

## 2. Significant Accounting Policies *(continued)*

### Impact of issued but not yet effective HKFRSs *(continued)*

The amendments to HKAS 12 “Deferred Tax: Recovery of Underlying Assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The adoption of the amendments to HKAS 12 may have a material impact on deferred tax recognised for investment properties that are measured using the fair value model. The Group is in the process of assessing the impact from application of these amendments.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact 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.

## 3. Segment Information

The following table presents revenue and profit/(loss) for the Group’s reportable segments:

	Six months ended 31 January (Unaudited)											
	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Segment revenue:												
Sales to external customers	57,893	287,486	195,868	174,614	186,899	196,758	11,329	10,581	—	—	451,989	669,439
Intersegment sales	—	—	5,152	3,800	—	—	11,577	11,431	(16,729)	(15,231)	—	—
Other revenue	4,965	2,533	1,246	266	1	—	—	—	—	—	6,212	2,799
<b>Total</b>	<b>62,858</b>	<b>290,019</b>	<b>202,266</b>	<b>178,680</b>	<b>186,900</b>	<b>196,758</b>	<b>22,906</b>	<b>22,012</b>	<b>(16,729)</b>	<b>(15,231)</b>	<b>458,201</b>	<b>672,238</b>
Segment results	13,313	40,904	153,430	135,240	38,447	40,299	(639)	(63)	—	—	204,551	216,380
Interest income and unallocated gain											5,188	37,139
Fair value gain on investment properties	—	—	60,624	587,635	—	—	—	—	—	—	60,624	587,635
Unallocated expenses											(102,226)	(81,580)
Reversal of provision/(provision) for tax indemnity											1,060	(47,185)
Profit from operating activities											169,197	712,389
Finance costs											(23,035)	(23,866)
Share of profits and losses of associates	34,829	(3,075)	105,058	147,691	(1,275)	431	—	—	—	—	138,612	145,047
Share of profits and losses of associates — unallocated											(22,324)	246,541
Discount on acquisition of additional interest in an associate											88,695	—
Profit before tax											351,145	1,080,111
Tax											(25,403)	(115,677)
<b>Profit for the period</b>											<b>325,742</b>	<b>964,434</b>

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 3. Segment Information *(continued)*

The following table presents the total assets for the Group's reportable segments:

	Property development and sales		Property investment		Hotel and restaurant operations		Others		Consolidated	
	31 January 2012	31 July 2011	31 January 2012	31 July 2011	31 January 2012	31 July 2011	31 January 2012	31 July 2011	31 January 2012	31 July 2011
	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000	(Audited) HK\$'000
Segment asset	1,308,080	1,258,813	7,905,682	7,794,466	531,900	557,901	61,555	55,143	9,807,217	9,666,323
Interests in associates	356,197	721,432	2,803,362	1,847,124	11,223	4,975	—	—	3,170,782	2,573,531
Interests in associates — unallocated									2,665,653	2,474,781
Unallocated assets									2,132,087	1,968,669
Total assets									17,775,739	16,683,304

### 4. Profit From Operating Activities

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

	Six months ended 31 January	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Depreciation <sup>#</sup>	11,551	11,447
Amortisation of prepaid land lease payments <sup>*</sup>	514	514
Loss on disposal of equity investments at fair value through profit or loss <sup>*</sup>	51	882
Fair value loss/(gain) on equity investments at fair value through profit or loss <sup>*</sup>	6,580	(2,083)
Gain on disposal of an available-for-sale financial asset	—	(27,795)
Interest income from bank deposits	(1,742)	(1,676)
Other interest income	(202)	(1,702)
Dividend income from unlisted available-for-sale equity investments	(100)	(215)
Dividend income from listed equity investments at fair value through profit or loss	(40)	—

<sup>#</sup> Depreciation charge of HK\$10,439,000 (Six months ended 31 January 2011: HK\$9,840,000) for property, plant and equipment is included in "other operating expenses, net" on the face of the condensed consolidated income statement.

<sup>\*</sup> These items are included in "other operating expenses, net" on the face of the condensed consolidated income statement.

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 5. Finance Costs

	<b>Six months ended 31 January</b>	
	<b>2012 (Unaudited) HK\$'000</b>	2011 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>22,887</b>	21,108
Bank financing charges	<b>4,466</b>	4,651
	<b>27,353</b>	25,759
Less: Amount capitalised in properties under development for sale	<b>(4,318)</b>	(1,893)
	<b>23,035</b>	23,866

### 6. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (Six months ended 31 January 2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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.

	<b>Six months ended 31 January</b>	
	<b>2012 (Unaudited) HK\$'000</b>	2011 (Unaudited) HK\$'000
Current tax		
Hong Kong	<b>7,644</b>	8,369
Overseas	<b>7,667</b>	7,556
	<b>15,311</b>	15,925
Deferred tax	<b>10,092</b>	99,752
Tax charge for the period	<b>25,403</b>	115,677

# Notes to Condensed Consolidated Interim Financial Statements *(continued)*

## 7. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of approximately HK\$302,384,000 (Six months ended 31 January 2011: HK\$940,835,000) and the weighted average number of approximately 16,609,379,000 (Six months ended 31 January 2011: restated as 15,320,755,000) ordinary shares in issue during the period. The weighted average number of shares in issued for both six months ended 31 January 2012 and 2011 used in the basic earnings per share calculation have been adjusted or restated to reflect the effect of the rights issue completed in December 2011.

The diluted earnings per share amounts for the six months ended 31 January 2012 and 2011 have not been disclosed as no diluting events existed during both periods.

## 8. Interests In Associates/Share of Profits And Losses of Associates

### The eSun Group

Included in the Group's interests in associates at 31 January 2012 and share of profits and losses of associates for the six months ended 31 January 2012 was the Group's share of net assets and loss of the eSun Holdings Limited ("**eSun**") and its subsidiaries (the "**eSun Group**") of HK\$2,652,309,000 (31 July 2011: HK\$2,461,426,000) and HK\$22,319,000 (Six months ended 31 January 2011: share of profit of HK\$246,539,000), respectively.

#### (a) Reorganisation involving shares in the capital of Lai Fung and the Company in prior period

On 26 July 2010, Lai Sun Garment (International) Limited ("**LSG**"), a substantial shareholder of the Company, entered into a conditional shares swap agreement with eSun pursuant to which (i) LSG transferred its entire shareholding interest in Lai Fung Holdings Limited ("**Lai Fung**"), representing approximately 40.58% of the issued share capital of Lai Fung, to eSun (the "**Lai Fung Transaction**") whereby eSun transferred its entire shareholding interest in LSD, representing approximately 36.72% of the issued share capital of LSD, to LSG (the "**LSD Transaction**" and referred as the "**Shares Swap Transactions**" together with Lai Fung Transaction); and (ii) cash consideration of approximately HK\$178.4 million was paid by eSun to LSG. All the conditions precedent under the shares swap agreement were fulfilled and completion of the Shares Swap Transactions took place on 30 September 2010 (the "**Completion**").

Prior to the Completion, a crossholding position existed between the eSun Group and the Company that the Group's interest in eSun was 36.08% and the eSun Group held 36.72% of the issued share capital of the Company. Upon Completion of the Shares Swap Transactions, eSun no longer holds any interest in the Company but the Company continues to hold a 36.08% equity interest in eSun. Accordingly, the cross-holding relationship between eSun and the Company was eliminated.

Included in the share of results of eSun Group for the six months ended 31 January 2011 were (i) eSun Group's gain on disposal of 36.72% interest in the Company shared by the Group of HK\$215,505,000; and (ii) eSun Group's discount on acquisition of 40.58% interest in Lai Fung shared by the Group of HK\$1,861,000.

#### (b) In April 2011, certain share options granted by eSun under its share option scheme were exercised to subscribe for ordinary shares of eSun. Accordingly, the Group's interest in eSun was diluted from 36.08% to 36.00%.

#### (c) In August 2011, the Group acquired a 1.93% additional interest in eSun at a cost of HK\$43,301,000 and the Group's interest in eSun was increased from 36.00% to 37.93%. A discount on acquisition of HK\$88,695,000 was arising from such acquisition and recognised in the consolidated income statement for the six months ended 31 January 2012.

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 8. Interests In Associates/Share of Profits And Losses of Associates *(continued)*

#### Diamond String Limited ("**Diamond String**")

Included in the Group's interests in associates as at 31 January 2012 and share of profits and losses of associates for the six months ended 31 January 2012 was the Group's share of net assets and profit of Diamond String, a 50%-owned associate holds a property situated at 3 Connaught Road Central, Hong Kong which is being re-developed into a grade A office tower for investment purpose, of approximately HK\$1,952,182,000 (31 July 2011: HK\$1,847,124,000) and HK\$105,058,000 (Six months ended 31 January 2011: HK\$147,691,000), respectively.

#### Best Value International Limited ("**Best Value**")

On 12 July 2011, Luck Reach Limited (the "**Purchaser**", a wholly-owned subsidiary of the Company), the Company, Focal Point Services Limited ("**Focal**"), Keyfull Investment Limited ("**Keyfull**"), Cypress Vine Corporation ("**Cypress**"; together with Focal and Keyfull, collectively referred as the "**Vendors**"), guarantors for the Vendors and the trustee for Cypress entered into an agreement (the "**Acquisition Agreement**"), pursuant to which:

- (a) the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell 50% equity and loan interests in Best Value at a total consideration of HK\$845,635,574 (subject to adjustment in accordance with the terms and conditions of the Acquisition Agreement); and
- (b) the Vendors granted an option to the Purchaser to purchase an additional 10% equity and loan interests in Best Value (the "**Option**") for a consideration of HK\$169,127,115 (subject to adjustment in accordance with the terms and conditions of the Acquisition Agreement), exercisable by the Purchaser subject to certain conditions stipulated in the Acquisition Agreement.

The principal assets of Best Value and its subsidiaries (the "**Best Value Group**") comprise properties, which representing parcels of ground on Observatory Road, Kowloon, Hong Kong with the buildings erected thereon (now known as Nos. 2, 4, 6, 8, 10 and 12, Observatory Road, Kowloon, Hong Kong) (the "**Land**"). The Group currently intends that the Best Value Group will develop a multi-storey commercial complex on the Land.

In July 2011, the Group paid an amount of HK\$90,000,000 to the Vendors' solicitors as the deposit upon signing of the Acquisition Agreement.

The acquisition of 50% equity and loan interests in Best Value, the exercise of the Option and the financial assistance to be provided by the Group to the Best Value Group for redevelopment of the Land (collectively as the "**Transactions**") together constituted a major transaction for the Company under Chapter 14 of the Listing Rules and are, therefore, subject to the approval of the Company's shareholders by way of poll. Further details of the Transactions and the Acquisition Agreement were set out in the circular of the Company dated 4 October 2011.

Resolutions approving the Transactions were duly passed at the extraordinary general meeting of the Company on 22 October 2011. Completion of the acquisition of a 50% interest took place on 11 November 2011.

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 8. Interests In Associates/Share of Profits And Losses of Associates *(continued)*

#### Best Value International Limited ("**Best Value**") *(continued)*

Given the fact that the conditions in relation to the Option were not fulfilled, the Option was not exercisable by the Purchaser. Accordingly, the Group ends up holding a 50% interest in Best Value.

Based on terms and conditions of the Acquisition Agreement, the final consideration for acquisition of 50% equity and loan interests was approximately HK\$842,410,000. The remaining balance of the final consideration was fully paid to the Vendors during the six months ended 31 January 2012.

### 9. Debtors And Deposits Paid/Creditors, Deposits Received And Accruals

- (a) The Group maintains various credit policies for different business operations in accordance with business practices and market conditions in which the respective subsidiaries operate. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent and related charges in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Hotel and restaurant charges are mainly settled by customers on cash basis except for those corporate clients who maintain credit accounts with the respective subsidiaries, the settlement of which is in accordance with the respective agreements.

An ageing analysis of the trade debtors, based on payment due date, as at the end of the reporting period is as follows:

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Trade debtors:		
Not yet due or less than 30 days past due	<b>17,622</b>	7,252
31 — 60 days past due	<b>1,292</b>	2,143
61 — 90 days past due	<b>404</b>	385
Over 90 days past due	<b>1,884</b>	2,559
	<b>21,202</b>	12,339
Other debtors and deposits paid	<b>116,943</b>	112,488
	<b>138,145</b>	124,827

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 9. Debtors And Deposits Paid/Creditors, Deposits Received And Accruals *(continued)*

- (b) An ageing analysis of the trade creditors, based on payment due date, as at the end of the reporting period is as follows:

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Trade creditors:		
Not yet due or less than 30 days past due	<b>7,551</b>	7,004
31 — 60 days past due	<b>344</b>	1,273
61 — 90 days past due	<b>191</b>	374
Over 90 days past due	<b>507</b>	481
	<b>8,593</b>	9,132
Other creditors, deposits received and accruals	<b>216,650</b>	212,967
	<b>225,243</b>	222,099

### 10. Share Capital

	<b>31 January 2012</b>		31 July 2011	
	<b>Number of shares (Unaudited) '000</b>	<b>Nominal value (Unaudited) HK\$'000</b>	Number of shares (Audited) '000	Nominal value (Audited) HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	<b>27,000,000</b>	<b>270,000</b>	17,200,000	172,000
Preference shares of HK\$1.00 each	<b>1,200,000</b>	<b>1,200,000</b>	1,200,000	1,200,000
		<b>1,470,000</b>		<b>1,372,000</b>
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	<b>20,062,893</b>	<b>200,629</b>	14,162,042	141,620

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 22 September 2011, the authorised share capital of the Company was increased from HK\$1,372,000,000 divided into 17,200,000,000 ordinary shares of HK\$0.01 each and 1,200,000,000 preference shares of HK\$1.00 each to HK\$1,470,000,000 divided into 27,000,000,000 ordinary shares of HK\$0.01 each and 1,200,000,000 preference shares of HK\$1.00 each by the creation of 9,800,000,000 additional ordinary shares of HK\$0.01 each, ranking pari passu in all respects with the existing shares of the Company.

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 10. Share Capital *(continued)*

In December 2011, the Company completed a rights issue of 5,900,850,966 ordinary shares of HK\$0.01 each on the basis of five rights shares for every twelve shares held of the Company at a subscription price of HK\$0.09 per rights share (the “**Rights Issue**”). The net proceeds from the Rights Issue was approximately HK\$513,640,000, after deduction of share issue expenses of approximately HK\$17,437,000.

Movements in the Company’s issued capital during the period are summarised as follows:

	Number of ordinary shares '000	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
As at 1 August 2011	14,162,042	141,620	6,974,701	7,116,321
Rights Issue	5,900,851	59,009	472,068	531,077
Share issue expenses	—	—	(17,437)	(17,437)
As at 31 January 2012	20,062,893	200,629	7,429,332	7,629,961

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 “**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 Capital Reduction. An amount of HK\$5,619,000,000 of the total credit was credited to the accumulated losses of the Company and the remaining amount of HK\$626,561,000 was credited to the share premium account of the Company.

An undertaking in standard terms was given to the High Court by the Company in connection with the Capital Reduction. The undertaking is for the benefit of the Company’s creditors as at the effective date of the Capital Reduction. Pursuant to the undertaking, any receipts by the Company on or after 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 Development Group Limited (“**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 Capital Reduction) remains outstanding, and the person entitled to the benefit thereof has not agreed otherwise, the special capital reserve shall not be treated as realised profits and (for so long as the Company remains a listed company) shall be treated as an undistributable reserve pursuant to Section 79C of the Hong Kong Companies Ordinance.

# Notes to Condensed Consolidated Interim Financial Statements *(continued)*

## 10. Share Capital *(continued)*

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, a wholly-owned subsidiary of the Company 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. During the six months ended 31 January 2012, there was no movement of transfer between retained profits/ (accumulated losses) and special capital reserve.

After the effective date of the 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 Capital Reduction as stated above.

As a result of the Rights Issue with net cash proceeds of approximately HK\$513,640,000 as detailed above, the Company's issued share capital and share premium account was further increased by an aggregate amount of HK\$513,640,000. The entire remaining balance of the special capital reserve of HK\$126,264,000 was further transferred to the general reserve (a distributable reserve) of the Company pursuant to the provisos of the undertaking given by the Company in connection with the Capital Reduction as stated above.

As a result of the above transfers between the reserves, the outstanding balance of the general reserve of the Company as at 31 January 2012 was HK\$630,400,000 (31 July 2011: HK\$504,136,000). There was no remaining balance in the special capital reserve as at 31 January 2012 (31 July 2011: HK\$126,264,000).

## Notes to Condensed Consolidated Interim Financial Statements *(continued)*

### 11. Capital Commitments

The Group had the following commitments in respect of purchase of property, plant and equipment not provided for in the financial statements at the end of the reporting period:

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Capital commitments — contracted but not provided for	<b>11,469</b>	4,168

### 12. Contingent Liabilities

- (a) Contingent liabilities not provided for in the financial statements at the end of the reporting period are as follows:

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Guarantees given to a bank in connection with a facility granted to and utilised by an associate	<b>338,976</b>	277,979

- (b) In connection with the disposal (the "**Transaction**") of 100% interests in Majestic Hotel and Majestic Centre, Kowloon, Hong Kong by Taiwa Land Investment Company, Limited ("**Taiwa**"), an indirect 50% owned associate of the Group, Taiwa, the Company, and the other 50% beneficial shareholder of Taiwa (collectively the "**Covenantors**") entered into a tax deed (the "**Tax Deed**") with the purchaser of the Transaction, and Majestic Hotel Enterprises Holding Limited and Majestic Centre Holding Limited and their subsidiaries (collectively the "**Properties Holding Companies**") on 17 July 2007. Pursuant to the Tax Deed, the Covenantors severally agreed to indemnify the Properties Holding Companies against any taxation on profits levied by relevant tax authority in Hong Kong resulting from events happened prior to the completion of the Transaction for a maximum amount of HK\$30,000,000. As such, the maximum liability of the Company under the Tax Deed is HK\$15,000,000. The Tax Deed is valid for a period of 7 years from the date of its execution.

# Notes to Condensed Consolidated Interim Financial Statements *(continued)*

## 12. Contingent Liabilities *(continued)*

- (c) Pursuant to an indemnity deed (the “**Lai Fung Tax Indemnity Deed**”) dated 12 November 1997 entered into between the Company and Lai Fung, the Company has undertaken to indemnify Lai Fung in respect of certain potential PRC income tax and land appreciation tax (“**LAT**”) payable or shared by Lai Fung in consequence of the disposal of any of the property interests attributable to Lai Fung through its subsidiaries and its associates as at 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 chartered surveyors, 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 of Hong Kong Limited (the “**Listing**”); (ii) any increase in the relevant tax which arises due to an increase in tax rates or changes to the legislation prevailing at the time of the Listing; and (iii) any claim to the extent that provision for deferred tax on the revaluation surplus has been made in the calculation of the adjusted net tangible asset value of Lai Fung as set out in Lai Fung’s prospectus dated 18 November 1997.

After taking into account the Property Interests currently held by Lai Fung as at 31 January 2012 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 HK\$1,336,996,000.

As at 31 January 2012, the directors of the Company, after taking into account the prevailing market situation and the latest development plan and status of the various individual property development projects as included in the Property Interests and the prevailing tax rates and legislation governing PRC income tax and LAT, considered it is probable that an estimated amount of HK\$517,510,000 (31 July 2011:HK\$518,570,000) of the abovementioned tax indemnity given by the Company would be crystallised. Therefore, a reversal of provision for the tax indemnity amount of HK\$1,060,000 was recognised in the consolidated income statement for the six months ended 31 January 2012.

# Management Discussion and Analysis

## Property Investment

For the six months ended 31 January 2012, aggregate gross rental income from the Group's investment properties amounted to approximately HK\$195.9 million (2011: HK\$174.6 million), representing an increase of 12.2% over the corresponding period last year. The increase was generally due to an improvement in rental renewals.

The Group wholly owns three major investment properties in Hong Kong and one in London, namely Causeway Bay Plaza 2, Cheung Sha Wan Plaza, Lai Sun Commercial Centre and an office building in the United Kingdom ("UK"). During the period under review, these properties had in aggregate a total leasable GFA of approximately 1,496,000 square feet with an average occupancy of 98%.

## Property Development and Sales

For the six months ended 31 January 2012, recognised turnover from sales of properties was HK\$57.9 million (2011: HK\$287.5 million), representing a decrease of 79.9% over the corresponding period last year. The decrease was due to the conclusion of the sale of the Emerald 28 project. During the period under review, we sold virtually all of the remaining residential units at Emerald 28.

The Group holds the following property development projects in Hong Kong:

### Emerald 28, Tai Po Road, Kowloon

The Group wholly owns this development project. The project comprises a total of 53 residential units with a total GFA of 60,686 square feet and retail units with a total GFA of 10,186 square feet. During the six months ended 31 January 2012, the Group recorded the sale of 5 residential units (2011: 29 residential units) with an aggregate GFA of 5,670 square feet (2011: 33,178 square feet) at an average selling price of HK\$10,212 per square foot (2011: HK\$8,665 per square foot) and a turnover of HK\$57.9 million (2011: HK\$287.5 million). The sale of the residential portion of the project has virtually been completed.

### Ocean One, Yau Tong, Kowloon

The Group wholly owns this development project located at No. 6 Shung Shun Street, Yau Tong, Kowloon. The Group is developing the site into a residential-cum-commercial property with a total GFA of about 110,000 square feet. The estimated total development cost (including land cost and lease modification premium) is about HK\$700 million.

Superstructure work started in February 2011 and the building is expected to be completed in the third quarter of 2012. The Group plans to commence pre-sale of the residential units in the second quarter of 2012.

## Management Discussion and Analysis *(continued)*

### Property Development and Sales *(continued)*

#### 335-339 Tai Hang Road, Hong Kong

The Group wholly owns the site located at 335-339 Tai Hang Road, Hong Kong. The Group is developing the site into a luxury residential property with a total GFA of about 30,000 square feet. The Group completed the lease modification of the site. The total development cost (including land cost and lease modification premium) is estimated to be about HK\$650 million.

Foundation work started in October 2010 and the building is expected to be completed in the second quarter of 2013.

### Hotel and Restaurant Operations

The hotel and restaurant operations include the Group's interests in the Caravelle Hotel in Ho Chi Minh City, Vietnam and a number of acclaimed restaurants in Hong Kong including the only Michelin 3 star Italian restaurant 8 1/2 Otto e Mezzo BOMBANA; Michelin 1 star Japanese restaurant Wagyu Kaiseki Den; Michelin 1 star Cantonese restaurant Island Tang; as well as other high profile restaurants such as Kowloon Tang and Chiu Tang.

For the six months ended 31 January 2012, hotel and restaurant operations contributed HK\$186.9 million to the Group's turnover (2011: HK\$196.8 million), representing a decrease of approximately 5% from the same period last year. Most of the turnover from hotel and restaurant operations was derived from the Group's operation of the Caravelle Hotel. For the period under review, Caravelle Hotel achieved an average occupancy rate of 68% (2011: 68%) and an average daily room rate of US\$149 (2011: US\$142). Caravelle Hotel will undergo a comprehensive renovation and upgrade program which will commence shortly and the renovation is expected to be completed in the fourth quarter of 2013.

The hotel and restaurant operations are managed by Furama Hotels and Resorts International Limited ("FHRI"), the Group's hotels and resorts management operation. FHRI has extensive experience in providing consultancy and management services to hotels in China, Hong Kong and other Asian countries. FHRI's key strategy going forward will continue to focus on providing management services, particularly to capture opportunities arising from the developments of Lai Fung Holdings Limited ("**Lai Fung**") in Shanghai, Guangzhou and Zhongshan. FHRI will manage the serviced apartments in Shanghai May Flower Plaza, Guangzhou Paramount Centre and Zhongshan Palm Spring when the relevant developments are completed.

## Management Discussion and Analysis *(continued)*

### Interests in associates

During the period under review, contribution from associates decreased to HK\$116.3 million (2011: HK\$391.6 million), representing a decrease of 70.3%. This is primarily due to the absence of share of eSun's gain from the group reorganisation and lower property revaluation gain of the 3 Connaught Road Central project compared to the same period last year.

### Property Projects

The Group has interest in the following joint venture projects in Hong Kong:

#### 3 Connaught Road Central

The Group has a 50:50 interest with China Construction Bank Corporation ("**CCB**") in the joint redevelopment project of the former Ritz-Carlton Hotel in Central. The redeveloped project will be an office tower that is expected to become a landmark property in Central featuring underground access to the MTR station in Central. Part of the redeveloped property, upon its completion, will be used by CCB as offices for its Hong Kong operations. The total construction cost of the project is estimated to be approximately HK\$1,100 million.

Superstructure work commenced in April 2010. The building is expected to be completed in the third quarter of 2012.

#### The Oakhill, Wood Road, Wanchai

This residential development project is a 50:50 joint venture between the Group and Invesco. The project's total development cost is approximately HK\$1,300 million. The project comprises a total of 130 residential units with a total GFA of 154,713 square feet, street level retail shops with a total GFA of 7,880 square feet and 62 car-parking spaces.

The project was completed in June 2011. To date, 123 residential units with an aggregate GFA of 141,754 square feet have been sold at an average selling price of approximately HK\$15,000 per square foot.

#### 2-12 Observatory Road

The Group completed the acquisition of a 50% interest in a project at Observatory Road, Kowloon with the buildings previously erected there known as Nos. 2, 4, 6, 8, 10 and 12, Observatory Road, Kowloon in November 2011.

## Management Discussion and Analysis *(continued)*

### Property Projects *(continued)*

#### 2-12 Observatory Road *(continued)*

The Group is now in discussions with the joint venture partner as regards the overall re-development plan including the designs, features and quality of the new building. The site is being planned to be redeveloped into a multi-storey commercial building with a total GFA of approximately 165,000 square feet. Subject to the finalisation of the re-development plan with the joint venture partner, the total development cost is estimated to be approximately HK\$2.3 billion including an estimated land value of approximately HK\$1.7 billion. The new building is expected to be completed in 2015.

#### eSun

The Company's share of eSun's loss amounted to HK\$22.3 million for the six months ended 31 January 2012 (2011: share of profit of HK\$246.5 million). eSun's business momentum was encouraging despite the absence of blockbuster titles released and anchor live events organised, which were partially offset by increase in volume. Excluding the effects of non-cash/non-recurring items (i.e. effects of the convertible notes issued by its listed subsidiary, Media Asia Group Holdings Limited, gains from reorganisation, and contribution from Lai Fung after adjusting for reorganisation), the business fundamentals remain sound. The Group expects this momentum to continue given an underlying schedule of new releases in movies, events and music albums in the second half of 2012.

Despite the challenging operating environment characterised by stringent austerity measures in the property market in China, Lai Fung was able to deliver a good performance for the six months ended 31 January 2012 after adjusting for gains from property revaluation and group reorganisation. Net asset value increased steadily and net profit attributable to shareholders was broadly maintained.

### Liquidity and Financial Resources

As at 31 January 2012, the Group had consolidated net assets of approximately HK\$12,915 million (as at 31 July 2011: HK\$11,959 million).

The Group's sources of funding comprise mainly internal funds generated from the Group's business operations and loan facilities provided by banks.

As at 31 January 2012, the Group had secured banking facilities (excluding amounts repaid and cancelled pursuant to the respective terms of the facilities) of approximately HK\$2,864 million. The amount of outstanding borrowings under these secured banking facilities was approximately HK\$2,522 million (as at 31 July 2011: HK\$2,417 million). The debt to equity ratio expressed as a percentage of the total outstanding borrowings to consolidated net assets was approximately 19.5%. As at 31 January 2012, the maturity profile of the bank borrowings of HK\$2,522 million was spread over a period of less than 5 years with HK\$872 million repayable within 1 year, HK\$362 million repayable in the second year and HK\$1,288 million repayable in the third to fifth years. As at 31 January 2012, all the Group's borrowings carried interest on a floating rate basis.

## Management Discussion and Analysis *(continued)*

### Liquidity and Financial Resources *(continued)*

As at 31 January 2012, certain investment properties with a total carrying amount of approximately HK\$7,810 million, certain property, plant and equipment with a total carrying amount of approximately HK\$239 million, prepaid land lease payments of approximately HK\$26 million, certain properties under development for sale of approximately HK\$1,075 million, and certain bank balances and time deposits with banks of approximately HK\$100 million were pledged to banks to secure banking facilities granted to the Group. In addition, certain shares in subsidiaries held by the Group were also pledged to banks to secure loan facilities granted to the Group. Certain shares in an associate held by the Group were pledged to a bank to secure a loan facility granted to an associate of the Group. Certain shares of an investee company held by the Group were pledged to banks to secure a loan facility granted to this investee company. The Group's secured bank borrowings were also secured by floating charges over certain assets held by the Group.

The Group's major assets and liabilities and transactions were denominated in Hong Kong dollars or United States dollars. Considering that Hong Kong dollars are pegged against United States dollars, the Group believes that the corresponding exposure to exchange rate risk arising from United States dollars is nominal. In addition, the Group has an investment in UK with the assets and liabilities denominated in Pounds Sterling. The investment was partly financed by bank borrowings denominated in Pounds Sterling in order to minimise the net foreign exchange exposure. The net investment amounted to approximately HK\$131 million which only accounted for a small portion of the consolidated net assets of the Group as at 31 January 2012. Other than the abovementioned, the remaining monetary assets and liabilities of the Group were denominated in Renminbi and Vietnamese Dong which were also insignificant as compared with the Group's total assets and liabilities. No hedging instruments were employed to hedge for the foreign exchange exposure.

### Employees and Remuneration Policies

As at 31 January 2012, the Group employed a total of approximately 1,200 employees. The Group recognises the importance of maintaining a stable staff force in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to employees based on their merit and in accordance with industry practice. Other benefits including share option scheme, mandatory provident fund scheme, free hospitalisation insurance plan, subsidised medical care and sponsorship for external education and training programmes are offered to eligible employees.

### Contingent Liabilities

Details of contingent liabilities of the Group are set out in note 12 to the condensed consolidated interim financial statements.

## Disclosure Pursuant to Chapter 13 of The Listing Rules ("Chapter 13")

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

As at 31 January 2012, the aggregate amount of financial assistance and guarantees given for facilities granted to affiliated companies has exceeded the assets ratio of 8% under the Listing Rules.

In compliance with Rule 13.22 of Chapter 13, the proforma combined statement of financial position of the affiliated companies at 31 January 2012 is disclosed as follows:

	HK\$'000
Property, plant and equipment	283,171
Film rights	49,770
Film products	78,968
Music catalogs	44,746
Interests in jointly-controlled entities	83,289
Interests in associates	4,655,620
Available-for-sale investments	197,249
Held-to-maturity debt investments	6,672
Deposits, prepayments and other receivables	86,214
Deferred tax assets	3,835
Investment property under construction	3,124,213
Properties under development	264,399
Amounts due from shareholders	31,812
Net current assets	2,257,913
<b>Total assets less current liabilities</b>	<b>11,167,871</b>
Long term borrowings	(167,634)
Convertible notes	(163,770)
Deferred tax	(534)
Deferred income	(48,649)
Amounts due to shareholders	(2,208,950)
	(2,589,537)
	<b>8,578,334</b>
<b>CAPITAL AND RESERVES</b>	
Issued capital	644,040
Share premium account	4,230,797
Contributed surplus	891,289
Investment revaluation reserve	(4,766)
Share option reserve	2,459
Other reserve	159,125
Exchange fluctuation reserve	298,014
Retained profits	2,128,935
	8,349,893
Non-controlling interests	228,441
	<b>8,578,334</b>

# Corporate Governance and Other Information

## Corporate Governance

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**” and the “**Listing Rules**” respectively) throughout the six months ended 31 January 2012 save for the deviations from code provisions A.4.1 and E.1.2.

*Under code provision A.4.1, non-executive directors should be appointed for a specific term and should be subject to re-election.*

None of the existing non-executive directors (including the independent non-executive directors (the “**INEDs**”)) of the Company is appointed for a specific term. However, all directors of the Company (the “**Directors**”) are subject to the retirement provisions in the Articles of Association of the Company (the “**Articles of Association**”), which require that the Directors for the time being shall retire from office by rotation once every three years since their last election by shareholders and the retiring Directors are eligible for re-election. In addition, any person appointed by the Board as an additional Director (including a non-executive Director) will hold office only until the next annual general meeting of the Company (the “**AGM**”) and will then be eligible for re-election. Further, each of the Directors appointed to fill a casual vacancy will be subject to election by the shareholders at the first general meeting after his/her appointment in line with the relevant code provision of the CG Code. In view of these, the Board considers that such requirements are sufficient to meet the underlying objective of the said code provision A.4.1 and, therefore, does not intend to take any remedial steps in this regard.

*Under code provision E.1.2, the chairman of the board should attend the annual general meeting.*

Due to other pre-arranged business commitments which must be attended to by him, the Chairman was not present at the AGM held on 21 December 2011. However, Mr. Lau Shu Yan, Julius, an executive Director (“**ED**”) and the Chief Executive Officer who was present at that AGM was elected chairman thereof pursuant to the Articles of Association to ensure an effective communication with shareholders of the Company thereat.

## Securities Transactions by Directors and Designated Employees

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees (the “**Securities Code**”) on terms no less exacting than the standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry on all Directors who have confirmed in writing their compliance with the required standard set out in the Securities Code during the six months ended 31 January 2012.

## Corporate Governance and Other Information *(continued)*

### Directors' Interests

The Directors and the chief executive of the Company who held office on 31 January 2012 and their respective associates (as defined in the Listing Rules) were interested or were deemed to be interested in the following interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) on that date (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO (the "Register"); or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Securities Code or (d) as known by the Directors:

#### (1) The Company

##### Long positions in the ordinary shares of HK\$0.01 each (the "Shares")

Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Approximate % of Total Interests to Total Issued Shares
Lam Kin Ngok, Peter	Beneficial owner/ Owner of controlled corporations	14,307,745	Nil	9,623,231,353 (Note 1)	Nil	9,637,539,098	48.04%
Lau Shu Yan, Julius	Beneficial owner	8,783,333	Nil	Nil	Nil	8,783,333	0.044%
U Po Chu (Note 2)	Beneficial owner	897,316	Nil	Nil	Nil	897,316	0.004%

#### Notes:

- (1) *Lai Sun Garment (International) Limited ("LSG") and two of its wholly-owned subsidiaries, namely Zimba International Limited and Joy Mind Limited, beneficially owned 9,623,231,353 Shares, representing approximately 47.97% of the issued share capital of the Company. Dr. Lam Kin Ngok, Peter ("Dr. Peter Lam") was deemed to be interested in the same 9,623,231,353 Shares by virtue of, in aggregate, his approximate 38.06% personal and deemed interests in the issued share capital of LSG.*
- (2) *Madam U Po Chu is the widow of the late Mr. Lim Por Yen whose estate includes an interest of 197,859,550 Shares, representing approximately 0.99% of the issued share capital of the Company.*

## Corporate Governance and Other Information *(continued)*

### Directors' Interests *(continued)*

#### (2) Associated Corporations

- (i) eSun Holdings Limited (“eSun”) — an associate of the Company

#### Long positions in the ordinary shares of HK\$0.50 each

Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Approximate % of Total Interests to Total Issued Shares
Lam Kin Ngok, Peter	Beneficial owner/ Owner of controlled corporations	2,794,443	Nil	471,604,186 <i>(Note)</i>	Nil	474,398,629	38.16%

*Note:*

LSG was interested in 9,623,231,353 Shares in the Company, representing approximately 47.97% of the issued share capital of the Company. Transtrend Holdings Limited, a wholly-owned subsidiary of the Company, was interested in 471,604,186 shares in eSun, representing approximately 37.93% of the issued share capital of eSun. As such, Dr. Peter Lam was deemed to be interested in the same 471,604,186 issued shares in eSun (representing approximately 37.93% of eSun's issued share capital) by virtue of, in aggregate, his approximate 38.06% and 48.04% personal and deemed interests in the issued share capital of LSG and the Company respectively.

## Corporate Governance and Other Information *(continued)*

### Directors' Interests *(continued)*

#### (2) Associated Corporations *(continued)*

(ii) Lai Fung Holdings Limited (“**Lai Fung**”) — an associate of eSun

##### (a) Long positions in the ordinary shares of HK\$0.10 each

Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Approximate % of Total Interests to Total Issued Shares
Lam Kin Ngok, Peter	Owner of controlled corporations	Nil	Nil	3,265,688,037 <i>(Note)</i>	Nil	3,265,688,037	40.58%
Lau Shu Yan, Julius	Beneficial owner	6,458,829	Nil	Nil	Nil	6,458,829	0.08%

##### (b) Interests in the 9.125% Senior Notes due 2014 (the “Senior Notes”)

Name of Director	Capacity	Nature of Interests	Principal Amount
Lam Kin Ngok, Peter	Owner of controlled corporations	Corporate	US\$1,025,000 <i>(Note)</i>
Lau Shu Yan, Julius	Beneficial owner	Personal	US\$300,000
Cheung Sum, Sam	Beneficial owner	Personal	US\$200,000

*Note:*

*eSun was interested in 3,265,688,037 shares in Lai Fung, representing approximately 40.58% of the issued share capital of Lai Fung and in the principal amount of US\$1,025,000 of the Senior Notes issued by Lai Fung. As such, Dr. Peter Lam was deemed to be interested in the same 3,265,688,037 issued shares in Lai Fung and the same principal amount of US\$1,025,000 of the Senior Notes issued by Lai Fung by virtue of, in aggregate, his approximate 38.16% personal and deemed shareholding interests in eSun.*

## Corporate Governance and Other Information (continued)

### Directors' Interests (continued)

#### (2) Associated Corporations (continued)

(iii) Media Asia Group Holdings Limited (“MAGH”) — a subsidiary of eSun

#### Long positions in the shares and underlying shares

Name of Director	Capacity	Number of ordinary shares of HK\$0.01 each held	Number of underlying shares (convertible notes)	Deemed interest pursuant to Section 317 of the SFO (Note 2)	Total Interests	Approximate % of Total Interests to Total Issued Shares
Lam Kin Ngok, Peter	Owner of controlled corporations	6,712,925,500	14,132,500,000	11,382,823,103	32,228,248,603	245.26%

Notes:

- (1) Perfect Sky Holdings Limited (“Perfect Sky”), a wholly-subsiary of eSun, was interested in 6,712,925,500 shares and 14,132,500,000 underlying shares in MAGH. Dr. Peter Lam was deemed to be interested in the same 20,845,425,500 shares and underlying shares in MAGH by virtue of, in aggregate, his approximate 38.16% personal and deemed shareholding interests in eSun.
- (2) Dr. Peter Lam was deemed to be interested in the 11,382,823,103 shares and underlying shares in MAGH pursuant to Section 317 of the SFO since eSun was deemed to be interested in the shares and the underlying shares in MAGH held by the parties (other than MAGH) to a subscription agreement dated 23 March 2011 and entered into amongst Perfect Sky and such parties for the subscription of certain shares in and convertible notes of MAGH, and their respective ultimate beneficial owners.

Save as disclosed above, as at 31 January 2012, none of the Directors and the chief executive of the Company was interested or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, which were required to be notified to the Company and the Stock Exchange, or recorded in the Register as aforesaid, notified under the Securities Code or otherwise known by the Directors.

## Corporate Governance and Other Information *(continued)*

### Substantial Shareholders and Other Persons' Interests

As at 31 January 2012, so far as it is known by or otherwise notified to any Director or the chief executive of the Company, the particulars of the corporations or persons, one being a Director of the Company, who had 5% or more interests in the following long positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or were entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company (the "**Voting Entitlements**") (i.e. within the meaning of substantial shareholders of the Listing Rules) were as follows:

#### Long positions in the Shares of the Company

Name	Capacity	Nature of Interests	Number of Shares	Approximate% of Shares in Issue
<b>Substantial Shareholders</b>				
Lai Sun Garment (International) Limited (" <b>LSG</b> ")	Beneficial owner	Corporate	9,623,231,353	47.97%
Lam Kin Ngok, Peter	Beneficial owner/ Owner of controlled corporation	Personal and corporate	9,637,539,098	48.04% (Note)

Note:

*LSG and two of its wholly-owned subsidiaries, namely Zimba International Limited and Joy Mind Limited, beneficially owned 9,623,231,353 Shares, representing approximately 47.97% of the issued share capital of the Company. Dr. Peter Lam was deemed to be interested in the same 9,623,231,353 Shares by virtue of, in aggregate, his approximate 38.06% personal and deemed interests in the issued share capital of LSG.*

*Save as disclosed above, the Directors are not aware of any other corporation or person who, as at 31 January 2012, had the Voting Entitlements or 5% or more interests or short positions in the Shares or underlying Shares of the Company recorded in the register required to be kept under Section 336 of the SFO.*

## Corporate Governance and Other Information *(continued)*

### Share Option Scheme

The Company adopted a share option scheme (the “**Scheme**”) on 22 December 2006 and the Scheme became effective on 29 December 2006 (the “**Commencement Date**”). The purpose of the Scheme is to provide incentives or rewards to any eligible employee and director of the Company or any of its subsidiaries, any agent or consultant of any member of the Group or any employee of the shareholder of any member of the Group or any holder of any securities issued by any member of the Group for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. Unless otherwise altered or terminated, the Scheme will be valid and effective for a period of 10 years commencing on the Commencement Date.

During the six-month period ended 31 January 2012, no options were granted, exercised and cancelled and lapsed in accordance with the terms of the Scheme.

### Purchase, Sale or Redemption of Listed Securities

During the six months ended 31 January 2012, the Company did not redeem any of its Shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

### Update of Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the Directors' information since the disclosure made in the Company's annual report 2010-2011 are set out as follows:

- (1) Mr. Cheung Wing Sum, Ambrose (“**Mr. Cheung**”) retired as an ED immediately after the conclusion of the AGM of the Company held on 21 December 2011.
- (2) Mr. Cheung was appointed a consultant of the Company and eSun with effect from 1 January 2012.
- (3) Mr. Ip Shu Kwan, Stephen (“**Mr. Ip**”) was appointed an INED of Luk Fook Holdings (International) Limited (“**Luk Fook**”) on 1 October 2011.
- (4) Mr. Ip resigned as an INED of PICC Property and Casualty Company Limited (“**PICC**”) on 1 November 2011.

eSun, Luk Fook and PICC are companies listed on the Main Board of the Stock Exchange.

- (5) Owing to an annual adjustment, the monthly salary of Messrs. Lau Shu Yan, Julius, Tam Kin Man, Kraven and Cheung Sum, Sam, each an ED, has been increased from HK\$286,000, HK\$239,000 and HK\$123,000 to HK\$314,600, HK\$246,376 and HK\$126,690 respectively, all with effect from 1 January 2012.

## Corporate Governance and Other Information *(continued)*

### Review of Interim Report

The audit committee of the Company currently comprises two INEDs, namely Messrs. Leung Shu Yin, William and Lam Bing Kwan and a non-executive Director, Mr. Wan Yee Hwa, Edward. Such committee has reviewed the interim report (containing the unaudited condensed consolidated interim financial statements) of the Company for the six months ended 31 January 2012.