

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



LAI SUN DEVELOPMENT

Lai Sun Development Company Limited
(Incorporated in Hong Kong with limited liability)

(Stock Code: 488)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 JANUARY 2009

RESULTS

The Board of Directors of Lai Sun Development Company Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 January 2009 as follows:

Condensed Consolidated Income Statement

For the six months ended 31 January 2009

		Six months ended 31 January 2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
	Notes		
TURNOVER	3	326,726	506,562
Cost of sales		(95,463)	(190,548)
Gross profit		231,263	316,014
Other revenue		14,281	29,780
Administrative expenses		(139,559)	(168,654)
Other operating expenses, net		(38,797)	(25,279)
Fair value gain / (loss) on investment properties		(356,448)	472,568
Reversal of provision for tax indemnity	4	72,668	-
Gain on disposal of partial interest in a subsidiary		-	404,409
PROFIT / (LOSS) FROM OPERATING ACTIVITIES	5	(216,592)	1,028,838
Finance costs	6	(39,191)	(70,016)
Share of profits and losses of associates		(95,624)	63,051
Loss on deemed disposal of interest in an associate		-	(2,664)
PROFIT / (LOSS) BEFORE TAX		(351,407)	1,019,209
Tax	7	45,390	(100,466)
PROFIT / (LOSS) FOR THE PERIOD		(306,017)	918,743
Attributable to:			
Equity holders of the Company		(328,235)	882,771
Minority interests		22,218	35,972
		(306,017)	918,743
EARNINGS / (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK (2.32) cents	HK 6.23 cents
Diluted		N/A	HK 6.23 cents

Condensed Consolidated Balance Sheet
As at 31 January 2009

	Notes	31 January 2009 HK\$'000 (Unaudited)	31 July 2008 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		338,008	335,775
Prepaid land lease payments		28,607	29,121
Investment properties		4,980,500	5,336,000
Properties under development		668,223	451,558
Interests in associates	9	2,686,597	2,770,370
Available-for-sale financial assets		425,338	453,200
Pledged bank balances and time deposits		-	94,121
Deposits paid	10(a)	-	18,800
Total non-current assets		<u>9,127,273</u>	<u>9,488,945</u>
CURRENT ASSETS			
Completed properties for sale		2,350	2,350
Equity investments at fair value through profit or loss		18,379	49,842
Inventories		4,535	4,429
Debtors and deposits paid	10(a)	92,686	96,209
Pledged bank balances and time deposits		92,848	-
Cash and cash equivalents		<u>1,496,067</u>	<u>1,255,348</u>
Total current assets		<u>1,706,865</u>	<u>1,408,178</u>
CURRENT LIABILITIES			
Creditors, deposits received and accruals	10(b)	189,325	176,828
Tax payable		32,576	24,083
Interest-bearing bank borrowings		<u>670,962</u>	<u>152,175</u>
Total current liabilities		<u>892,863</u>	<u>353,086</u>
NET CURRENT ASSETS		<u>814,002</u>	<u>1,055,092</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,941,275</u>	<u>10,544,037</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		(1,595,116)	(1,722,703)
Deferred tax		(728,685)	(785,523)
Provision for tax indemnity	4	(391,964)	(464,632)
Long term rental deposits received		<u>(36,353)</u>	<u>(44,431)</u>
Total non-current liabilities		<u>(2,752,118)</u>	<u>(3,017,289)</u>
		<u><u>7,189,157</u></u>	<u><u>7,526,748</u></u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	11	141,620	141,620
Share premium account		6,974,701	6,974,701
Investment revaluation reserve		432,073	464,780
Share option reserve		18,173	16,694
Capital redemption reserve		1,200,000	1,200,000
General reserve	11	504,136	504,136
Special capital reserve	11	46,885	46,885
Exchange fluctuation reserve		41,632	41,978
Accumulated losses		<u>(2,392,094)</u>	<u>(2,063,859)</u>
		6,967,126	7,326,935
Minority interests		<u>222,031</u>	<u>199,813</u>
		<u><u>7,189,157</u></u>	<u><u>7,526,748</u></u>

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 2009 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 “HKICPA”).

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 2008. The Group has adopted the new and revised Hong Kong Financial Reporting Standards (“HKFRS”, 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 accounting policies of the Group and the methods of computation in the Group’s unaudited condensed consolidated interim financial statements.

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:

HKFRSs (Amendments)	<i>Improvements to HKFRS¹</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statement²</i>
HKAS 23 (Revised)	<i>Borrowing Costs²</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements³</i>
HKFRS 1 & HKAS 27 (Amendments)	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate²</i>
HKFRS 3 (Revised)	<i>Business Combinations³</i>
HKFRS 7 (Amendments)	<i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments²</i>
HKFRS 8	<i>Operating Segments²</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate²</i>

¹ Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, which is effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKAS1 (Revised), HKFRS 7 (Amendments) and HKFRS 8 may result in new or amended disclosures in the financial statements. In respect of other amendments, new standards and new interpretations, 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

(a) Business segments

The following tables present revenue and results for the Group's business segments:

	Six months ended 31 January (unaudited)											
	Property development and sales		Property investment		Hotel and restaurant operations		Others		Eliminations		Consolidated	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Segment revenue:												
Sales to external customers	-	-	171,066	164,881	143,738	330,884	11,922	10,797	-	-	326,726	506,562
Intersegment sales	-	-	4,636	3,771	-	-	13,470	15,957	(18,106)	(19,728)	-	-
Other revenue	569	300	352	237	-	278	-	5	-	-	921	820
Total	569	300	176,054	168,889	143,738	331,162	25,392	26,759	(18,106)	(19,728)	327,647	507,382
Segment results	192	(282)	(224,060)	592,821	34,518	485,671	3,121	3,253	-	-	(186,229)	1,081,463
Interest income and unallocated gains											13,360	28,960
Unallocated expenses											(116,391)	(81,585)
Reversal of provision for tax indemnity											72,668	-
Profit / (loss) from operating activities											(216,592)	1,028,838
Other segment information :												
Fair value gain / (loss) on investment properties	-	-	(356,448)	472,568	-	-	-	-	-	-	(356,448)	472,568
Gain on disposal of partial interest in a subsidiary	-	-	-	-	-	404,409	-	-	-	-	-	404,409

(b) Geographical segments

The following tables present revenue for the Group's geographical segments:

	Six months ended 31 January (unaudited)					
	Hong Kong		Vietnam		Consolidated	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Segment revenue:						
Sales to external customers	194,684	375,414	132,042	131,148	326,726	506,562
Other revenue	921	820	-	-	921	820
Total	195,605	376,234	132,042	131,148	327,647	507,382

4. REVERSAL OF PROVISION FOR TAX INDEMNITY

Pursuant to certain indemnity deeds (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 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, 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 indemnity deeds assume 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 2009 which are covered under Lai Fung Tax Indemnity Deed and the prevailing tax rates and legislation governing in PRC income tax and LAT, the total amount of tax indemnity given by the Company is estimated to be HK\$1,341,829,000.

As at 31 January 2009, the directors of the Company, after taking into account 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 the PRC income tax and LAT, considered it is probable that an estimated amount of HK\$391,964,000 (31 July 2008 : HK\$464,632,000) of the above mentioned tax indemnity given by the Company would be crystallised. Therefore, a reversal of provision for the tax indemnity amount of HK\$72,668,000 was recognised in the condensed consolidated income statement for the six months ended 31 January 2009.

5. PROFIT / (LOSS) FROM OPERATING ACTIVITIES

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

	Six months ended 31 January	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation #	12,417	27,196
Amortisation of prepaid land lease payments *	514	514
Impairment of goodwill*	-	1,144
Fair value loss on equity investments at fair value through profit or loss *	26,342	-
Loss on disposal of equity investments at fair value through profit or loss *	1,233	-
Loss on disposal of items of property, plant and equipment *	-	22
Loss on disposal of investment properties	-	2,920
Interest income from bank deposits	(8,835)	(18,059)
Other interest income	(750)	(5,973)
Dividend income from unlisted available-for-sale equity investments	(472)	(1,558)
Return of capital from an unlisted available-for-sale equity investment	(424)	-
Gain on disposal of subsidiaries	-	(154)
	<u> </u>	<u> </u>

Depreciation charge of HK\$8,638,000 (six months ended 31 January 2008: HK\$22,902,000) for property, plant and equipment is included in "other operating expenses, net" on the face of the condensed consolidated income statement.

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

6. FINANCE COSTS

	Six months ended 31 January	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings wholly repayable within five years	37,178	69,832
Bank financing charges	<u>4,394</u>	<u>3,549</u>
	41,572	73,381
Less: Amounts capitalised in properties under development	<u>(2,381)</u>	<u>(3,365)</u>
	<u> </u>	<u> </u>
	<u>39,191</u>	<u>70,016</u>

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 31 January 2008: 17.5%) 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.

	Six months ended	
	31 January	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong	4,791	5,124
Overseas	6,716	6,517
	11,507	11,641
Deferred tax	(56,838)	88,880
	(45,331)	100,521
Prior period's overprovision - Hong Kong	(59)	(55)
Tax charge / (credit) for the period	(45,390)	100,466

8. EARNINGS / (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings / (loss) per share is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$328,235,000 (six months ended 31 January 2008: profit attributable to ordinary equity holders of the Company of HK\$882,771,000) and the weighted average number of 14,162,042,000 (six months ended 31 January 2008: 14,162,042,000) ordinary shares in issue during the period.

Diluted loss per share for the current period has not been presented as no diluting events existed during the period.

The calculation of diluted earnings per share for the prior period was based on the adjusted profit attributable to equity holders of the Company for the six months ended 31 January 2008 of HK\$882,627,000 and the weighted average number of 14,162,042,000 ordinary shares in issue during that period.

The calculation of adjusted profit attributable to ordinary equity holders of the Company for the prior period was based on the profit attributable to ordinary equity holders of the Company for the six months ended 31 January 2008 of HK\$882,771,000 less the dilution in the results of an associate, eSun Holdings Limited ("eSun"), attributable to the Group of HK\$144,000 arising from the deemed exercise of all eSun's share options with dilutive effect being outstanding during that period.

9. INTERESTS IN ASSOCIATES

Included in the Group's interests in associates as at 31 January 2009 is the Group's share of net assets of the eSun and its subsidiaries (the "eSun Group") of HK\$1,919,570,000 (31 July 2008: HK\$2,017,971,000).

A cross holding position has been existing between eSun and the Company. As at 31 January 2009, the Group's interest in eSun was 36.08% (31 July 2008: 36.08%) and the eSun Group held in aggregate 36.72% (31 July 2008: 36.72%) in the issued share capital of the Company.

10. 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, is as follows:

	31 January 2009 HK\$'000 (Unaudited)	31 July 2008 HK\$'000 (Audited)
Trade debtors:		
Less than 30 days past due	7,739	6,869
31 – 60 days past due	3,357	1,717
61 – 90 days past due	924	681
Over 90 days past due	<u>2,752</u>	<u>3,344</u>
	14,772	12,611
Other debtors and deposits paid	<u>77,914</u>	<u>102,398</u>
	92,686	115,009
Portion classified as non-current:		
Deposit paid for acquisition of properties under development	<u>—</u>	<u>(18,800)</u>
Current portion	<u>92,686</u>	<u>96,209</u>

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

	31 January 2009 HK\$'000 (Unaudited)	31 July 2008 HK\$'000 (Audited)
Trade creditors:		
Less than 30 days past due	4,526	6,702
31 – 60 days past due	149	28
61 – 90 days past due	—	19
Over 90 days past due	<u>191</u>	<u>113</u>
	4,866	6,862
Other creditors, deposits received and accruals	<u>184,459</u>	<u>169,966</u>
	<u>189,325</u>	<u>176,828</u>

11. SHARE CAPITAL

	31 January 2009		31 July 2008	
	Number of shares '000 (Unaudited)	Nominal value HK\$'000 (Unaudited)	Number of shares '000 (Audited)	Nominal value HK\$'000 (Audited)
Authorised:				
Ordinary shares of HK\$0.01 each	<u>17,200,000</u>	172,000	<u>16,000,000</u>	160,000
Preference shares of HK\$1.00 each	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>
		<u>1,372,000</u>		<u>1,360,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	<u>14,162,042</u>	<u>141,620</u>	<u>14,162,042</u>	<u>141,620</u>

Pursuant to an ordinary resolution passed on 23 December 2008, the authorised ordinary share capital of the Company was increased from HK\$160,000,000 to HK\$172,000,000 by creation of an additional 1,200,000,000 ordinary shares of HK\$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company

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;
- (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.

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 reserves 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 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\$551,021,000, 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\$292,693,000; 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 Capital Reduction, the Company entered into a placing agreement 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.

INTERIM ORDINARY DIVIDEND

As at 31 January 2009, the Company did not have any reserves available for distribution in accordance with provisions of Section 79B of the Companies Ordinance. The directors do not recommend the payment of an interim ordinary dividend for the financial year ending 31 July 2009. No interim ordinary dividend was declared in respect of the previous corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of Interim Results

For the six months ended 31 January 2009, the Group recorded a turnover of HK\$326,726,000 (2008: HK\$506,562,000) and a gross profit of HK\$231,263,000 (2008: HK\$316,014,000), representing a decrease of approximately 35.5% and 26.8% from the previous corresponding period. The decrease in turnover and gross profit was largely due to the lack of contribution during the six months ended 31 January 2009 from the hotel operations of the former The Ritz-Carlton Hong Kong which ceased operations since 1 February 2008.

For the six months ended 31 January 2009, the Group booked a fair value loss on investment properties of HK\$356,448,000 (2008: a gain of HK\$472,568,000) as a result of the current adverse economic conditions. During this period, the Group did not record any gain on disposal whereas in the previous corresponding period, the Group recorded a gain on disposal of HK\$404,409,000 for the disposal of a partial interest in Diamond String Limited, which owns the former The Ritz-Carlton Hong Kong property. During this period, the Group recorded a reversal of provision for tax indemnity of approximately HK\$72,668,000. Such provision was made in the financial year of 2008 in respect of certain tax indemnity granted by the Group to Lai Fung Holdings Limited ("Lai Fung") in November 1997 at the time of effecting the separate listing of Lai Fung on The Stock Exchange of Hong Kong Limited (details of such tax indemnity and provision are set out in Note 4 above). Mainly as a result of the above exceptional items, the Group incurred a loss from operating activities of HK\$216,592,000 during the six months ended 31 January 2009, versus a profit from operating activities of HK\$1,028,838,000 in the previous corresponding period.

The Group currently holds a 36.08% interest in eSun Holdings Limited ("eSun"), which in turn holds a 36.72% interest in the Group. During the period, share of losses from associates was HK\$95,624,000, compared to share of profits from associates of HK\$63,051,000 in the previous corresponding period. Such share of losses from associates mainly reflected the operational losses at eSun after taking into account the cross-holdings between the Group and eSun. Also, the cross-holdings between the Group and eSun results in a further loss to the Group due to its further share of eSun's loss arising from eSun's share of the results of the Group.

As a result of decrease of interest rate, finance costs of the Group decreased to HK\$39,191,000 (2008: HK\$70,016,000).

For the six months ended 31 January 2009, the Group recorded a consolidated net loss attributable to equity holders of the Company of HK\$328,235,000, compared to a consolidated net profit of HK\$882,771,000 from the previous corresponding period.

Shareholders' equity as at 31 January 2009 amounted to HK\$6,967,126,000, down from HK\$7,326,935,000 as at 31 July 2008. Net asset value per share as at 31 January 2009 was HK\$0.492, as compared to HK\$0.517 as at 31 July 2008.

BUSINESS REVIEW

Investment Properties

The Group wholly owns three investment properties for rental purposes, i.e. Causeway Bay Plaza 2, Cheung Sha Wan Plaza and Lai Sun Commercial Centre. For the six months ended 31 January 2009, aggregate gross rental income from investment properties contributed to the Group's turnover of approximately HK\$171,066,000 (2008: HK\$162,801,000), slightly up by approximately 5.1% from the previous corresponding period. As at 31 January 2009, overall occupancy of the Group's investment properties remained high at 97.4%.

Development Properties

3 Connaught Road Central Project (Redevelopment of the former The Ritz-Carlton Hong Kong site)

This joint redevelopment project is a 50:50 joint venture between the Group and a wholly-owned subsidiary of China Construction Bank Corporation ("CCB"). The buildable GFA for the redevelopment is approximately 225,000 square feet. The redeveloped office tower will become a landmark property in Central, Hong Kong. Part of the redeveloped property, upon its completion, will be used by CCB as offices of its Hong Kong operations.

Demolition work of the former The Ritz-Carlton Hong Kong hotel property started in April 2008 and was completed in January 2009. Foundation work is now in progress. The entire redevelopment work is now expected to be completed by the end of 2011.

Wood Road Project, Wanchai

This joint residential development project is a 50:50 joint venture between the Group and a unit of AIG Global Real Estate Investment (Asia) LLC. The development has a planned total gross floor area of approximately 140,000 square feet and total development cost is estimated to be about HK\$1,300,000,000.

Foundation work started in November 2007 and was completed in September 2008. Above-ground construction work is scheduled for completion by 2011.

Tai Po Road Project

The Group owns 100% of this development project. The development has a planned total gross floor area of over 60,000 square feet mainly for residential use and the total development cost is now estimated to be about HK\$500,000,000.

Foundation work started in mid April 2008 and was completed in September 2008. Superstructure work is scheduled for completion by 2010.

Yau Tong Project

The Group completed the purchase of a site located at No. 4 Shung Shun Street, Yau Tong, Kowloon, Hong Kong in September 2008. The consideration for the purchase was HK\$188 million.

The site, which covers an area of approximately 17,760 square feet, is currently used as an open-air carpark. Subject to approval of lease modification of the site to non-industrial use and payment of the relevant land premium, the Group intends to develop the site into a residential-cum-commercial property with a total gross floor area of about 106,000 sq. ft.

Hotel Operations

For the six months ended 31 January 2009, hotel and restaurant operations contributed to the Group's turnover of HK\$143,738,000 (2008: HK\$330,884,000), down approximately 56.6% from the previous corresponding period. The decrease in turnover was due to the lack of contribution during the six months ended 31 January 2009 from the hotel operations of the former The Ritz-Carlton Hong Kong which ceased operations since 1 February 2008. In substance, most of the hotel and restaurant turnover was derived from the Group's operation of Caravelle Hotel in Ho Chi Minh City, Vietnam. For the six months ended 31 January 2009, Caravelle Hotel achieved an average occupancy of 53% (2008: 67%) and average daily room rate of US\$198 (2008: US\$198)

eSun and Macao Studio City

For the six months ended 31 January 2009, share of losses from eSun was adversely affected by, among other things, (i) lower entertainment event income as a result of the temporary closure for renovation of a major pop concert venue in Hong Kong, Hong Kong Coliseum, in Hunghom between July 2008 and January 2009; (ii) increase in administrative costs due to consolidation of the expenses of its film unit and establishment of several new offices in the Mainland of China and Taiwan; (iii) costs incurred by its jointly-controlled entity to set up the team to manage the Macao Studio City project and to commence building the foundations of Macao Studio City; and (iv) from eSun's share of losses of the Group as a result of the cross-holdings between the Group and eSun.

Development progress of Macao Studio City

Macao Studio City joint venture ("Macao Studio City JV") is owned as to effectively 40% by eSun, 40% by New Cotai, LLC (the US joint venture partner) and 20% by CapitaLand Group. Macao Studio City will be developed into an integrated leisure resorts combining theatre/concert venues, live entertainment facilities, Studio RetailTM (a destination retail complex), Las Vegas style gaming facilities and world class hotels.

As at the date of this announcement, foundations work for Phase I of the project has been completed. Construction on the superstructure of Phase I of the project will commence once the debt financing exercise is finalised. Construction schedule and formal opening of Phase I will now depend on the timing of the conclusion of the debt financing exercise.

Approval of Land Grant Modification of Macao Studio City

In November 2007, Macao Studio City JV submitted a land grant modification on land uses and to increase the developable gross floor area of the site to 6,000,000 square feet. Macao Studio City JV has yet to receive formal approval to the same from the Macau government.

Financing for the development of Macao Studio City

Macao Studio City JV has no debt and is well-positioned to be flexible in the current environment. Accordingly, eSun is still targeting to have Macao Studio City JV completing the debt financing exercise as soon as practicable.

On 9 November 2007, shareholders of Macao Studio City JV entered into a Memorandum of Understanding (the “MOU”). The MOU recognized New Cotai Entertainment LLC’s exercise of a lease option as valid, conditionally amended certain provisions of the governing lease documents, and provided the mechanism by which the amendments would become effective. The MOU also conditionally provided for the increase of each shareholder’s proportional contribution to the Macao Studio City project, on a several basis, from US\$200 million to US\$500 million, subject to the approval of the shareholders of eSun and further negotiation of the definitive documents to reflect and expand upon matters agreed in the MOU. On 17 October 2008, New Cotai, LLC issued a notice of termination of the MOU to the respective parties of the MOU in accordance with the provisions thereof, the definitive documents not having been settled within the prescribed time limit. However, certain provisions of the MOU remain valid and binding on the parties.

As at the date of this announcement, the shareholders of Macao Studio City JV have only advanced US\$200 million in accordance with the terms of the relevant joint venture agreement of 6 December 2006. eSun’s contribution has been US\$80 million, which is proportional to its effective interest of 40%.

Despite termination of the MOU, eSun remains firmly committed to the Macao Studio City project. With the completion of eSun’s rights issue in May 2008 raising net proceeds of approximately HK\$1,015 million, eSun is prepared to further fund the Macao Studio City project however it evolves (and whether on terms envisaged by the MOU, or otherwise) and to use the proceeds otherwise for its general working capital purposes.

Prospects

In the fourth quarter of 2008, the global financial crisis materialised, resulting in a meltdown of global financial markets. Crashes in financial markets and global economic recession have created enormous uncertainties and risks. As one of the most open economies in the world, Hong Kong has inevitably experienced a slowdown in economic activity. With continuous improvement of its operations and with the timely disposal of assets in the past few years, the Group has a healthy balance sheet with reasonable leverage. Under the current circumstances, the Group will maintain a prudent approach to manage its businesses.

Investment Properties

Following the crashes in global financial markets in the fourth quarter of 2008 and with some of the world’s major economies now in recession, office and retail rental rates in Hong Kong have been under pressure due to the lower demand of office space and lower retail consumption. Although the Group recorded steady rental income in the first half of this financial year, downward pressure in rental income will be reflected in the second half of this financial year.

With current high occupancy in its investment properties, the Group has in the past economic cycle successfully strengthened its tenant and trade mix, which well prepares the Group to operate through difficult economic environment ahead. In the coming year, the Group will take a defensive approach as regards its rental policies, with the objective of maintaining occupancy rates and rental cashflows from its investment properties.

Development Properties

In anticipation of a possible sharp downturn in the local economy and negative market sentiment generally, prices of residential properties in Hong Kong have fallen since September 2008. In recent months, the Hong Kong residential market has shown early signs of stabilisation after price rationalisations in respect of newly launched projects and the easing in mortgage availability. In the long run, strong affordability, low interest rates and tight supply in the pipeline should benefit the Hong Kong property market.

The Group currently holds a few residential projects under development in Hong Kong. As two of the Group's development properties, the Wood Road, Wanchai project and the Tai Po Road project, are both in early development phase, the Group's development and realisation plan are not severely affected by the market at the moment. Given the shortage in supply in core city areas in Hong Kong, the Group is still cautiously optimistic on the Hong Kong residential properties in the longer term. The Group will monitor the local property market closely and will adopt a prudent approach towards acquiring new development projects in future.

Hotel management

Following the disposal of all hotel assets in Hong Kong in the last two years, the Group only holds a hotel ownership stake in Caravelle Hotel Vietnam. In future, the Group through its hotel management arm, Furama Hotels and Resorts International Limited, will focus on managing hotel rooms and serviced apartments in the region, including Greater China and Vietnam.

eSun and Macao Studio City

In view of its planned scale, unique positioning in Macau and combination of proposed facilities within it, eSun firmly believes that Macao Studio City will, in due course, become one of the region's major entertainment destinations and will be an important platform for eSun to expand and monetise its entertainment and media expertise. Accordingly, eSun remains firmly committed to this project.

With regard to eSun's media and entertainment businesses, eSun will strive to (i) building momentum by steadily increasing the number of films produced per annum, with the aim of expanding market share as well as diversifying its earnings risks as a result of over reliance, on a small number of films produced per annum; (ii) diversify its business in Hong Kong live entertainment with the reopening of Hong Kong Coliseum and increase its effort to expand into the live entertainment market in the Mainland; (iii) cautiously explore the digital music market targeting the Greater China market; and (iv) develop the lucrative TV drama business in the Mainland.

Liquidity and Financial Resources

As at 31 January 2009, the Group had consolidated net assets of approximately HK\$6,967 million (as at 31 July 2008: HK\$7,327 million).

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations and loan facilities provided by banks.

As at 31 January 2009, the Group had outstanding secured bank borrowings of approximately HK\$2,266 million (as at 31 July 2008: HK\$1,875 million). The debt to equity ratio as expressed in a percentage of the total outstanding borrowings to consolidated net assets was approximately 33%. As at 31 January 2009, the maturity profile of the bank borrowings of HK\$2,266 million was spread over a period of less than 5 years with HK\$671 million repayable within 1 year, HK\$952 million repayable in the second year and HK\$643 million repayable in the third to fifth years. All of the Group's borrowings carried interest on a floating rate basis.

As at 31 January 2009, certain investment properties with carrying amounts of approximately HK\$4,973 million, certain property, plant and equipment with carrying amounts of approximately HK\$263 million, prepaid land lease payments of approximately HK\$29 million, certain properties under development of approximately HK\$366 million and certain bank balances and time deposits with banks of approximately HK\$93 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 of an associate held by the Group were pledged to banks to secure a loan facility granted to this associate. Certain shares of an investee company held by the Group were pledged to a bank 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 monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars or United States dollars. All of the Group's borrowings are denominated in Hong Kong dollars or United States dollars. Considering that the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes that the corresponding exposure to exchange rate risk is nominal.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31 January 2009, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report save for the following deviations from code provisions A.4.1, and B.1.2.

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. None of the existing non-executive directors of the Company is appointed for a specific term. However, under the articles of association of the Company, all directors of the Company are subject to retirement by rotation once every three years since their last election and retiring directors are eligible for re-election.

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other commitments which must be attended to by the Chairman, the Chairman was not present at the annual general meeting of the Company held on 23 December 2008.

REVIEW OF INTERIM RESULTS

The interim results of the Company for the six months ended 31 January 2009 have been reviewed by the audit committee of the Company. The audit committee comprises the three independent non-executive directors of the Company, namely Mr. Wan Yee Hwa, Edward, Mr. Lam Bing Kwan and Mr. Leung Shu Yin, William.

By Order of the Board
Lam Kin Ngok, Peter
Chairman

Hong Kong, 9 April 2009

As at the date of this announcement, the executive directors of the Company are Mr. Lam Kin Ngok, Peter, Mr. Lau Shu Yan, Julius, Mr. Tam Kin Man, Kraven, Mr. Cheung Wing Sum, Ambrose, Mr. Cheung Sum, Sam and Miss Leung Churk Yin, Jeanny; the non-executive directors are Mr. Lam Kin Ming and Madam U Po Chu; and the independent non-executive directors are Mr. Lam Bing Kwan, Mr. Leung Shu Yin, William and Mr. Wan Yee Hwa, Edward.